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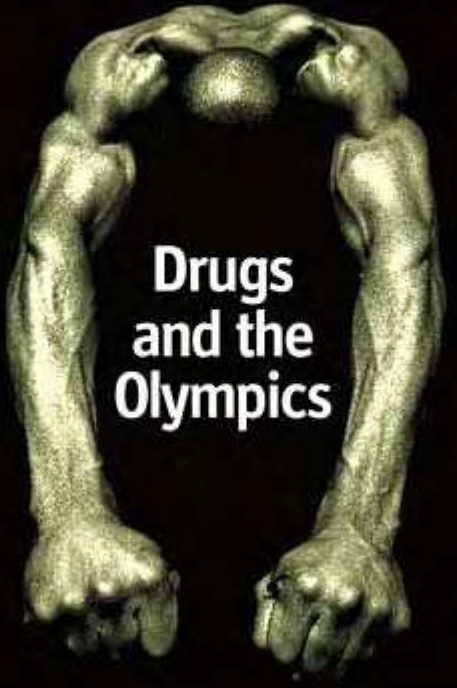

Drugs and the Olympics

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Politics this week

Aug 5th 2004
From The Economist print edition

Rapid reaction

Reuters

The arrests in Pakistan of a number of **al-Qaeda** suspects led to a raised terror alert in America and further arrests in Britain. One man held in Pakistan was the alleged mastermind behind the bombing of American embassies in East Africa in 1998. One of the British suspects was said to be a leading member of the organisation. Tom Ridge, America's secretary of homeland security, defended his decision to raise the terror alert at financial institutions in New York, Washington, DC, and Newark, New Jersey, even though much of the intelligence on which he based his decision was several years old.

See article

George Bush said he would support the creation of a national **intelligence tsar**, as recommended by the September 11th commission, though he insisted that the position should not be set up as a White House office.

See article

The Office of Management and Budget reported a revised estimate for America's **federal budget deficit** of $445 billion, or 3.8% of GDP, for the current fiscal year. The projection is an improvement on February's forecast of $521 billion.

See article

A military hearing began in Fort Bragg, North Carolina, for Lynndie England, a soldier at the centre of the **prisoner-abuse** case at Iraq's Abu Ghraib prison. The hearing will decide if Private England should be court-martialled.

The **Statue of Liberty** reopened to the public for the first time since the September 11th attacks. But tourists will not be allowed nearer than the monument's pedestal.

Locked in

Almost 500 people died when fire swept through a supermarket complex in Asunción, **Paraguay's** capital. The owners were arrested after survivors said that security guards shut the store's doors to prevent shoplifting, trapping customers inside.

See article

Mexico's formerly ruling Institutional Revolutionary Party did well in local elections: it retained the governorship of Oaxaca and prised the mayoralty of Tijuana from the National Action Party (PAN) of President Vicente Fox. Both losers said they would appeal to the electoral tribunal, claiming irregularities. The PAN kept the governorship of Aguascalientes.

See article

An uncorroborated American intelligence report from 1991 claiming that **Colombia's** president, Álvaro

Uribe, worked for the Medellín cartel of drug traffickers was published in Washington, DC. The State Department said it had no credible information to support the claim.

See article

Phantom soldiers

Saudi Arabia's foreign minister, Prince Saud al-Faisal, suggested that a multinational force from Muslim countries could help to keep the peace in **Iraq**, whose interim government enthusiastically cited Malaysia, Morocco, Nigeria, Pakistan, Tunisia and Yemen as likely participants. But the idea fell flat when several of the countries sounded sceptical; the prince said later that the force would completely replace rather than bolster the present American-led one.

See article

America said all 32 countries in the multinational force in Iraq had agreed to make no further concessions to **hostage takers**. Five churches—one in Mosul, the rest in Baghdad—were bombed and a dozen people killed by Muslim insurgents, raising fears among Iraq's Christians that their community, not more than 1m-strong, would be in constant danger. Heavy fighting was reported in the northern city of Mosul and an American military helicopter was shot down near the southern city of Najaf.

See article

The UN Security Council told Sudan's government to curb the militia that is slaughtering civilians in **Darfur** and to stop impeding aid workers feeding the starving. The regime called it a “declaration of war” but said it would comply.

See article

The government of **Côte d'Ivoire** signed a peace deal with rebels who control the northern half of the country. They are to disarm once the government enacts the political reforms it first promised last year which are now set for the end of September.

Over 250,000 people are still displaced after religious fighting in **Nigeria** three months ago, in which hundreds of people died, officials said.

See article

Tackling terror

After **Pakistan** arrested several suspected al-Qaeda militants, Shaukat Aziz, the country's finance minister and prime minister in waiting, narrowly escaped an assassination attempt, later claimed by an unknown group linked to al-Qaeda.

See article

EPA

China staged a military parade in Hong Kong, the first since it regained sovereignty over the territory in 1997. A few days earlier, after naval exercises simulating an invasion, China warned Taiwan it would not hesitate to use force if the island moved towards declaring independence.

See article

North Korea may be developing a new sea-based missile system which could bring the United States within North Korea's nuclear-strike range, according to *Jane's Defence Weekly*. The next round of six-party discussions aimed at solving the crisis over North Korea's nuclear-weapons programme is set for next month.

Japan resumed its food aid to **North Korea** after a four-year hiatus, as part of an assistance package

promised in May.

The **Thai** government will compensate the families of young Muslims killed when security forces raided a mosque in April, using what was described as excessive force.

To whose benefit?

Russia's parliament hurried through sweeping welfare legislation which replaces benefits in kind for veterans and pensioners with cash payments. The abolition of such benefits marks a big break with the Soviet system. It sparked protests by veterans' groups and communists.

Spain said its relations with Britain would not be helped by the visit to **Gibraltar** of Geoff Hoon, the defence secretary, to mark the 300th anniversary of the rock colony's acquisition.

Romania said it was ready to provide **Moldova** with electricity in the event that the Russian-oriented enclave on the east bank of the Dniester river cut power supplies to the republic. In an escalating dispute, Moldova has imposed economic sanctions on the breakaway statelet on the ground that schools teaching the Romanian language had been shut down.

President Mikhail Saakashvili of **Georgia** said his forces might open fire on ships which “illegally” approached the coast of Abkhazia, a Black Sea region from which the Georgians were driven out 11 years ago. Russia reacted angrily to the warning, saying it would do anything necessary to protect its citizens.

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Business this week

Aug 5th 2004
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Next stop, $50?

Oil surged past $44 a barrel, reaching a 21-year high. The latest spike came after warnings from American authorities that al-Qaeda planned to attack key financial institutions. And conflicting reports circulated about OPEC's ability to raise output to quell prices in the face of booming demand.

See article

Uncertainty over the future of **Yukos** eased after a Russian court said that the oil giant's bank accounts were not frozen and gave the firm more time to pay a tax bill of $3.4 billion. But Russia's tax authorities began to probe for further instances of tax evasion.

See article

Protracted talks broke down between a consortium led by **Royal Dutch/Shell**—including ExxonMobil and Gazprom—and **PetroChina**. Each western oil giant had hoped to take a 15% stake in a $18 billion gas pipeline stretching 2,500 miles across China. Apparently, cheap gas prices in China would not guarantee sufficient returns.

Agricultural revolution

The European Union and the United States agreed to remove subsidies on agricultural exports and to reduce other farm aid in a deal that rescues the Doha **world trade talks**. However, the details of the deal remain to be decided and it could take several more years for the Doha round to reach a conclusion. In a separate development, a WTO disputes panel delivered a preliminary ruling against the EU's **sugar subsidies**, according to Brazil, one of the countries that brought the complaint.

See article

Two high-flying media companies surprised their shareholders. **BSkyB**, a British-based satellite-TV firm in which Rupert Murdoch's News Corp holds a 35% stake, said that it would have to spend heavily to sustain subscriber growth. Its shares fell by 19% in a day. **IAC/ InterActive**, a conglomerate of internet-related businesses created and run by Barry Diller, a former Hollywood mogul, reported its first decline in travel bookings. The company's shares promptly fell by 16%.

See article

The European Commission revealed that it was preparing to show the red card to illegal state aid for **Europe's football clubs**. Teams may have benefited from help with the costs of stadium construction. The commission is also investigating a property deal between Real Madrid and the city's government.

The **New York Stock Exchange**, under heavy guard against possible terrorist attacks, announced a stiffening of its defences against the competition. It proposed allowing a big expansion of electronic trading at the expense of the “open-outcry” system that it has employed for some 212 years. Stern opposition from the NYSE's specialist traders is expected.

See article

Egg shelved

Prudential, a big British insurer, abandoned plans to auction its 79% stake in **Egg** after failing to secure an acceptable offer for the British online bank. Egg's shares fell.

J.P. Morgan Chase won a lawsuit against **WestLB**, forcing the German bank to honour a $165m letter of credit guaranteeing Enron's performance on an energy contract. After Enron's collapse in 2001, WestLB had argued that the contract had really been a loan disguised to hide Enron's true indebtedness.

Japan prepared itself for the first takeover battle for one of its biggest banks. **Sumitomo Mitsui Financial Group**, the country's third-largest bank, said that it would seek a merger with **UFJHoldings**, the weakest of Japan's big-four banks. But UFJ already has plans to tie up with **Mitsubishi Tokyo Financial Group**.

See article

Very little interest

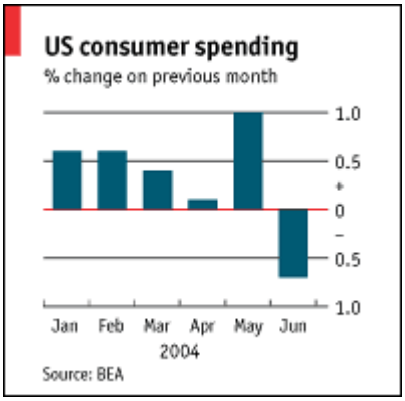
Nanosys cancelled a much-touted $100m initial public offering because of a lack of interest from investors. Some had reckoned that the IPO might start an internet-style boom in nanotechnology.

Eliot Spitzer, New York's business-bashing attorney-general, said he would begin legal action against **Express Scripts,** alleging fraud in the provision of drugs to New York state employees. The drug-benefit-management firm is accused of inflating the cost of generic drugs and denying the state coffers the benefit of rebates from manufacturers.

Pfizer said that it would take legal action against dozens of websites that it claims are selling counterfeit versions of its anti-impotency drug, Viagra. The drug giant is doubtless hoping for stiff penalties if the cases stand up in court.

Closing wallets

Americans tightened their purse strings in June. **Consumer spending** fell by 0.7% in the month—while admittedly growing rapidly in May—the biggest fall since the terrorist attacks of September 11th 2001. High energy prices and an uncertain job market seem to have restrained spending.



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Sport

Drugs and the Olympics

Aug 5th 2004
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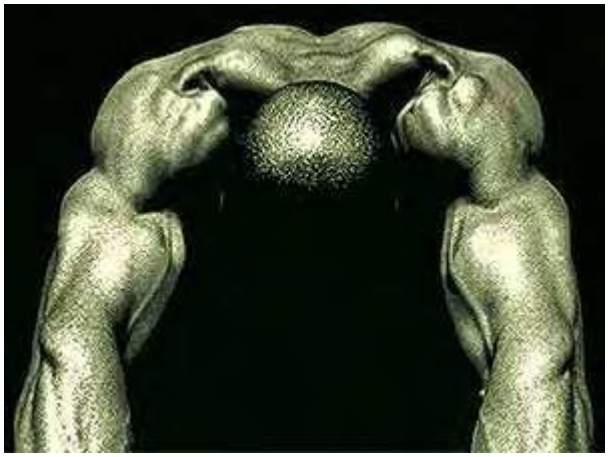
They are going to mix, whether you like it or not



“WHERE does the power come from, to see the race to its end?” asks Eric Liddell in that cinematic celebration of the Olympian ideal, “Chariots of Fire”. The runner's answer? “From within.” Eighty years after Liddell won his gold medal, for competitors at the Olympic games starting next week in Athens that power may come instead from without—in the form of drugs designed to maximise performance.

There was “doping” in sport even before the days of Liddell; cyclists, boxers, swimmers and others made use of alcohol, strychnine, cocaine and sundry other substances to ease the pain and give them an edge. But by 1988, when a Canadian runner, Ben Johnson, was stripped of his 100m gold at the Seoul Olympics for failing a drugs test, it was clear that doping had become rife—not just in nasty communist regimes such as East Germany and China, with their famously manly female athletes, but in western countries too. If doping may play a lesser role than it might have done this month in Athens, it is only because allegations about the use of the steroid tetrahydrogestrinone by clients of BALCO, a dietary supplements firm in California, have deprived the Olympics of some of its likeliest medallists—as well as highlighting the pervasive use of steroids in some non-Olympic sports such as America's Major League Baseball, now dubbed the “new East Germany”.

The evidence of doping has been greeted with almost universal condemnation, at least from those parts of the media that love a scandal and the chance to bring down a hero, and from politicians. George Bush has added the war on doping to his broader war on drugs, using this year's state-of-the-union address to urge sport to “get rid of steroids now” and bringing high-profile indictments against sporting dope-peddlers. Those in charge of sport are rapidly losing any ambivalence they once had, and joining a crusade against doping led by the redoubtable head of the World Anti-Doping Agency (WADA), Dick Pound (see article). Driving doping out of sport may prove impossible, however—especially as undetectable gene therapies may soon be on the market. But in any case, is it really so obvious that doping is wrong?

Though they come in many forms, there are really two main arguments made against doping. One is that it harms athletes—or, if the argument is made by someone willing to admit that putting athletes in harm's way is an integral part of many sports (boxing, rugby, American football and so on), that it harms them unnecessarily. The other is that it is against the spirit of sport: it is cheating or, at the very least, it destroys the mystical quality that gives sport its appeal. There is something to both arguments, but neither is wholly convincing.

For a start, how harmful are the performance-enhancing drugs used by today's athletes, or likely to be used in the future? Certainly, there have been heavily publicised cases suggesting that excessive use can sometimes have nasty consequences—cyclists suffering heart attacks, perhaps because of the oxygen-storage boosting but blood-thickening steroid EPO, or drug-expanded body-builders who are deeply depressed—though these examples are isolated, and may not be entirely as they appear. Some of the drugs used in East Germany had severe consequences, including gender-bending, but these were often given to the athletes with neither their knowledge nor any concern for the consequences after the gold medal was won. There are grounds to worry about the reportedly widespread use of steroids by children, who may, among other things, lack the maturity (physical and mental) to handle them. But the balance of the medical evidence—which would be harder to gather in an era of outright prohibition—suggests that, used responsibly, today's more popular performance-enhancers mostly have only temporary side-effects, at worst. (“Gene-doping”, done properly, may well prove to have no side-effects at all.) And any such harm pales beside that known to be done by, say, smoking tobacco and drinking alcohol—activities not unknown among athletes, but not likely to be banned anytime soon by the sporting authorities.

Bring me my arrows of desire

Suppose that the only consequence of doping is enhanced performance. Would that really be against the spirit of sport? Cheating is unequivocally against that spirit. Without agreed rules to play by, and strict sanctions against those who break them, sport would soon descend into unsatisfying anarchy. But is not part of the spirit of sport the pursuit of ever greater performance? Athletes do all sorts of things to improve their performance, to give them an edge, including things with similar physiological effects to steroids: training at high altitude, or spending long hours in an altitude chamber (as the iconic soccer star David Beckham did to accelerate the healing of a broken bone before the 2002 World Cup) do much the same as using EPO. If the rules were changed to allow, say, non-harmful performance-enhancing drugs—something that Juan Antonio Samaranch, then head of the International Olympic Committee, once caused outrage by advocating—then surely (that sort of) doping would no longer be cheating.

So, should the rules be changed in that way? There is, in fact, no right or wrong answer to this question—just as there is no right or wrong answer to questions such as what should be the offside rule in soccer (or the LBW rule in cricket, or the size or composition of a baseball bat). Indeed, such questions are wholly ill-suited to being answered with a blanket rule imposed by a single quasi-governmental global body that tends to see complex issues as black and white, and to demonise those who disagree with it—such as WADA. Far better for the question of doping to be addressed— just like, say, the offside rule—sport by sport, by the people who run each sport. Who better than they to judge how much performance-enhancement their athletes, and the fans who worship them, can take?

The development of undetectable gene-doping may soon make this entire debate moot. But if not, sport, with its increasingly shrill, intolerant attitude to doping, will find itself out of kilter with a society in which the use of performance-enhancing drugs—Viagra, Prozac and many more to come—is becoming the norm. We are all “drugs cheats” now.

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Sudan

Shuffling paper while Africans die

Aug 5th 2004
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Stronger, faster action is needed to save the people of Darfur

AFP

Get article background

NEARLY a year after the horse bolted, the UN has given the people who opened the stable door 30 days to show that they are serious about trying to rein it in again. Or else they will face unspecified penalties. Last year, the Sudanese government armed a mounted Arab militia, the *janjaweed*, and set it to work terrorising black Africans in the western region of Darfur, who are presumed to support one or other of the rebel movements there. With the support of government bombers, the *janjaweed* have torched hundreds of villages and robbed, raped, tortured or killed their inhabitants. This has created the world's worst humanitarian crisis: at least 30,000 dead, 1.2m forced to flee their homes, a harvest unplanted because the planters fear being shot if they venture into their fields, and 2m people in need of food aid and medical assistance. You might have thought that such a catastrophe would demand an urgent response, but the UN is not to be rushed.

Under the terms of a Security Council resolution passed last week, the government of Sudan was given 30 days to disarm the *janjaweed* and stop hindering aid workers as they succour the starving. If it does not, the UN will consider “measures”, which could include sanctions of some sort. There is talk of military intervention, but so far little action. The Sudanese army called the resolution a “declaration of war” and vowed to fight any “crusader” army that sets an impious foot on Sudanese soil. The Sudanese government encouraged big street demonstrations against the resolution, but also said that it would, under duress, try to comply with it.

What happens next will depend on who is serious, and who is bluffing. How harshly would outsiders punish the Sudanese government if it were to dishonour its pledges? And how will they judge if those pledges have been dishonoured? For Sudanese officials to stop hindering aid workers would require a dramatic change in their bureaucratic culture. And it is not certain that the Sudanese government could disarm the *janjaweed*, even it wanted to. It has promised to send 12,000 policemen to Darfur to impose peace. But some *janjaweed* fighters are being given police uniforms instead of being relieved of their guns. The UN says that Darfur has grown a bit calmer in the past week, but attacks against civilians continue.

The situation on the ground is confusing. It is not only the government that is hampering relief efforts. Darfur's rain-softened roads slow food-aid lorries. The rebels have looted some deliveries, and freelance bandits have taken advantage of the general climate of impunity to pillage and murder. Two things, however, are clear. One is that unless it is credibly threatened with painful sanctions, such as an oil

embargo, the Sudanese government will make no serious attempt to ease the plight of its black African citizens. The other is that even if the regime starts to behave better than it ever has before, foreign troops will still be needed in Darfur.

Military force will be needed to safeguard aid deliveries, and to reassure those who have fled their homes that it is safe to return. The refugees will never trust the Sudanese army to protect them, because they have such fresh memories of its barrel-bombs. They would welcome the 3,000 troops the African Union is thinking of sending. But these will not be enough, and will probably never arrive unless rich countries provide financial and logistical support. Since every day's delay means hundreds more unnecessary deaths, Darfur cannot wait another month for help. It needs peacekeepers now.

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Pakistan and terrorism

Winning the battle, not the war

Aug 5th 2004
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Pakistan's president has more to do to fight terrorism

AP

IF PERVEZ MUSHARRAF were not doing his damnedest to fight terror, why would terrorists keep trying to kill him? Why also, having survived two bomb blasts in the past year, would the general have overseen the arrest of 18 alleged al-Qaeda members in the past two weeks? They included a man who may have a $5m bounty on his head, and another whose arrest is reported to have stymied fresh al-Qaeda attacks in America and Britain. The United States, which has rewarded Mr Musharraf richly for his troubles, considers him a bulwark against Islamic extremism. But many others do not.

They point out that although Mr Musharraf has nabbed several hundred al-Qaeda suspects since the September 11th attacks, his record against the domestic extremist groups who succour them is patchier. When Pakistan is riven by sectarian violence—as last May, when dozens were killed in Karachi—a few suspected militants are arrested and a few extremist groups are sometimes banned. But the groups' leaders are usually left at large. A particularly vile Sunni extremist, Azam Tariq, was even permitted to sit in parliament while wanted on terrorism charges, until he was murdered last year.

Not coincidentally, Mr Tariq supported Mr Musharraf, as do most mainstream Islamists. This is partly for historical reasons. Through a quarter of a century of on-off military rule, Pakistan's generals have nurtured the Islamists and their ideology of *jihad*. This provided them with a useful auxiliary force in Afghanistan and Kashmir. But Mr Musharraf has gone further. In his efforts to attach democratic trappings to his dictatorship, he has given the mullahs a lead role in running the country. Their parliamentary coalition, the Muttahida Majlis-i-Amal (MMA), did unprecedentedly well in the last elections, in 2002. Unlike Pakistan's secular opposition parties, they were allowed to campaign freely. The MMA also gained control of two of Pakistan's four provinces. The mullahs then voted dutifully for an amendment to the constitution, legitimising Mr Musharraf's dictatorship until 2007.

Mr Musharraf has continued to indulge the mullahs in numerous ways, partly to retain their support, but also because he fears the destabilising effects of abandoning them. Shortly after turning his back on his old allies, the Taliban, he vowed to close scores of *madrassas*, or Islamic schools, that had recruited for them in Pakistan, and to regulate the rest. But two years on, the *madrassas* are still open and unregulated. The Taliban are again launching attacks into Afghanistan from northern Pakistan. And if in Kashmir the extremists' training camps are unusually quiet, they have not been dismantled.

Making things worse

Asked by America to crack down on Taliban and al-Qaeda fugitives hiding in northern Pakistan, Mr Musharraf has come up with a policy as cruel as it is counterproductive. He has sent his army into South Waziristan, the hitherto autonomous tribal region close to the border with Afghanistan, where it has bulldozed mud villages, closed roads and annihilated local defence forces. But it has failed to deliver any of the “high-value” terrorists Mr Musharraf promised. The policy has succeeded only in riling the tribes—though, crucially, it seems not greatly to have upset Mr Musharraf's Islamist friends.

In defence of his policy, Mr Musharraf's supporters say that there is a clear distinction between the mullahs in parliament and the terrorists. This is generally true. Yet their friends and ideologies are often the same. And sometimes, as per the late Mr Tariq, there would seem to be no distinction at all. In short, Mr Musharraf's policies are making Pakistan less secular and stable, not more. The secular opposition has been co-opted or scattered. The country's sophisticated middle class has little interest or involvement in politics. Among the impoverished majority, the firebrand preaching they hear in Islamic schools has a powerful allure. This would be worrying in any country with Pakistan's history of sectarian violence, let alone one with nuclear bombs.

To fight terrorism, Mr Musharraf must do more than round up a few big-name terrorists. He must disband the home-grown extremists that are their allies, and the *madrassas* that provide them with recruits. Above all, he must change the political culture of a country where military dictatorship and religious extremism have for so long gone hand-in-hand. By the end of this year, Mr Musharraf is due to renounce his military office and return Pakistan to civilian rule. Shorn of his uniform, he may, as many fear, prove powerless. But that will be no excuse not to try.

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World trade talks

A step forward

Aug 5th 2004
From The Economist print edition

But the Doha round of trade talks is far from finished

EPA

LISTEN to the world's trade negotiators describe their deal on July 31st, and you might think something radical had just happened. Supachai Panitchpakdi, top man at the World Trade Organisation, touted a “truly historic” achievement. Bob Zoellick, America's top negotiator, talked of a “milestone”. The reality is less dramatic. By itself, the Geneva deal will not lower any tariffs or cut a single subsidy. It does not imply the end of the Doha round negotiations, or even the half-way point of real horse-trading. At best, it marked the end of talks about how to negotiate—and in important areas, such as cutting industrial tariffs, it did not even do that.

So why the collective backslapping? One reason for genuine celebration is that this deal has saved the Doha round from near-certain collapse. Trade ministers first tried to agree a negotiating framework in Cancún, Mexico last year, and failed spectacularly. A second failure would have led many countries to conclude that trade talks involving 147 players, each with a veto, are a fool's game. The multilateral system risked being sidelined in favour of bilateral and regional trade deals. That danger has passed, at least for the moment.

And the trade ministers did more than just administer life-support. They agreed on a framework that could—note, could—lead to an ambitious trade-opening deal eventually. Controversial attempts to broaden the negotiations to new areas, such as rules on investment, were abandoned. The very poorest countries, who precipitated Cancún's collapse by walking out, were bought off with promises, albeit vague, on cotton, and exemptions from demands to open their markets. Though squarely against their own long-term economic interest, these exemptions will discourage the poorest from holding up the rest of the negotiations.

Most important, there was progress towards liberalising farm trade (see article). Rich countries realised that they had to go beyond the paltry concessions offered at Cancún last year. Export subsidies are to be eliminated, eventually. Countries promised “substantial reductions” in trade-distorting domestic subsidies; those with higher subsidies promised bigger cuts. Promises to cut farm tariffs were weakened with weasel words about allowing countries, rich and poor alike, to protect “sensitive” products. But here, too, the principle that higher barriers should be cut more was upheld.

Aim higher

With few numbers or dates and no products specified, it is impossible to gauge how much reform this framework will deliver. Given the addiction of rich countries to coddling their farmers, anyone expecting rapid change will doubtless be disappointed. But, at the very least, the Geneva deal ought to stop the Europeans backsliding on their reforms and also ought to force changes to America's grotesque farm subsidies.

The negotiators' sights, however, should be set much higher. They should aim for a thorough dismantling of distorting subsidies and for truly open markets for farm goods. Given the mercantilist mindset of trade negotiations, that will only happen if barriers to industrial goods and services are also reduced, especially by big developing countries such as Brazil and India. (The fact that lower tariffs benefit an importing economy is lost on trade negotiators.) In this area, the Geneva deal achieved less. The framework for talks on industrial goods has many loose ends, and the text on services does little more than tell negotiators to try harder.

Only with a serious political commitment from the biggest countries can the Doha round achieve a final trade deal. And such a serious commitment cannot be taken for granted, particularly in America's case. For all his trade team's contributions to the Doha round, George Bush has shown little interest in facing down powerful domestic interest groups. John Kerry's rhetoric on trade has been disappointing. Far from championing the Doha negotiations, his campaign never mentions them. Whoever is president next year will have to persuade a sceptical Congress to extend his negotiating authority. The painful truth is that, unless America's next president makes reaching a final Doha agreement and getting that deal through Congress a top priority, the Geneva framework will be nothing more than an “historic” breakthrough on a doomed venture.

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Building in Britain

Pay off the Nimbys

Aug 5th 2004
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The British government is taking the wrong approach to encouraging development

THE twin English passions for gardening and long muddy walks may seem puzzling to foreigners, yet they are easily explained in terms of a favourite economist's concept: scarcity. Most other nations have lots of countryside. England doesn't, and therefore its people prize the stuff. One consequence of the rural romance is a word which exists only in English and describes those with a particular sort of hostility to development: Nimbys, who don't mind new housing so long as it is Not In My Back Yard. Another consequence is a problem for the government.

Compared with its neighbours' economies, Britain's has been doing very nicely in recent years. Only one big threat looms: the possibility of a bust in the overheated and volatile housing market, which could feed through to the rest of the economy and lead to recession, as happened in the early 1990s. The government reckons that one reason why house prices have been rising so fast, particularly in the south-east of England, is that, while real wages have been going up and foreigners pouring in, little new housing is being built.

Nimbyism helps explain the shortage of new housing in the south-east. People living in pretty villages don't want new estates on their doorstep. After all, they spent their hard-earned dosh on a view of rolling acres, not of spanking new red-tiled roofs. Nimbys' hostility to development acquires legal force through the planning system, which has, in large part, been controlled by elected local authorities.

Although some big new developments—including the first new towns since the early 1970s—are getting the go-ahead, others are hard-fought (see article). The government's solution is to undermine local planning powers. The new Planning and Compulsory Purchase Act, which starts to come into force next month, shifts power from elected county councils to unelected regional bodies, and gives statutory force to the government's estimates of the number of new houses needed in different bits of the country. That will make it harder for councils in overheated areas to turn down developers.

The government is right that the planning system is excessively biased against growth: existing property-owners, who control the system through local authorities, have little interest in sanctioning developments which may reduce the value of their houses. But the government was wrong to go about lowering the barriers to development by taking power away from local authorities, thus further centralising Britain's already far-too-centralised political system.

Recognise the losses

Planning decisions on big infrastructure projects, such as airports and major roads, should be (and are) made largely by national government, because they affect people beyond the area in which they are built. But the decision on how much business and housing an area can sustain—which is a question about the balance between development and conservation—should be made by the locals who have to live with the consequences. Poorer areas are likely to go for growth and jobs; richer areas, which feel they have enough of those, may opt to keep their views intact.

A better way to encourage growth would be to compensate those who are most affected by new development. When a local authority grants planning permission on a piece of land, the plot's value rises in line with the market's estimate of the value of the proposed development, and the value of neighbouring properties tends to fall. At present, the increase in value goes to the owner of the land scheduled for development, and the local authority takes a slice from the developer in “planning gain” to pay for amenities such as roads and playgrounds. The neighbours get nothing but a spoiled view. Hardly surprising, then, that they fight so hard against new development. If the planning system took their loss into account, valued it and compensated them for it, their hostility might turn to indifference. And if the market did not place enough value on the proposed development to make up their loss, then it would not—and should not—go ahead.

Even if a developer were able to pay off the Nimbys, a development might not go ahead: the council might decide that a lovely view or bosky wood was worth preserving for the wider community. But it should be up to locals, not central government, to decide the relative values of money and beauty in any particular corner of a crowded island.

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Letters

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Kerry's pros and cons

SIR – In November, America must choose the de facto leader of the "war on terror" ("Not Dean, not Bush, not a robot...", July 24th). The war will not be won by cowing aspiring terrorists but by preventing moderates turning into extremists and the broad-minded into fundamentalists. George Bush's presidency has fuelled anti-Americanism and antipathy towards the West. His dismissal by the American people will symbolise the rejection of Mr Bush's America. So it does not much matter if John Kerry lacks "any deeply held set of convictions". The best reason for voting for him is that he is not Mr Bush.

Richard Cox
Sydney

SIR – You should be frightened at the thought of the world's dominant economy being taken over by a liberal Democrat with no real experience in administering anything of any note. Governing a state or at least running a big governmental entity is usually a vital prerequisite to overseeing the sprawling federal bureaucracy. Being so distant politically from the mainstream of the body politic ensures that a Kerry-Edwards administration would be mired in legislative gridlock from the start. The thought of them, in over their heads, turning to the likes of Edward Kennedy and Bill Clinton for political sustenance could only excite the naive or those without America's best interests at heart.

Ron Goodden
Atlanta

SIR – You mention a YouGov poll showing that half of voters have no idea who Mr Kerry is or what he stands for ("Who is John Kerry?", July 24th). Most Americans cannot be bothered to find out who the candidates are or what they stand for and if none catches their fancy they simply do not vote. Most Americans get their news from TV. Turn on a news channel and you find five people you have never heard of telling you what they think rather than what a candidate might think. Voters need to take voting seriously. They should turn their consumer instincts to politics. Shop around and seek out the best offer.

Luisa Loredo
Somerset, New Jersey

Health of nations

SIR – Your survey of health-care finance touches on the importance of institutionalised experiment and comparison (July 17th). But you imply that the challenge is to find, say, a best system for America or even one for each state. This misses an important point: governments commonly undervalue doing things in more than one way at the same time in the same place even when one of these usually appears "best" at any moment. What we need is not just experimentation state-by-state, but within states and localities, with different delivery systems competing for the same customers. We need this as an enduring state of affairs, not just as a transitional period while we look for the "right answer".

Michael O'Hare
University of California
Berkeley

SIR – Offering open-ended health commitments to populations that over-eat, under-exercise, smoke and are generally slothful is a recipe for health-care systems, like the couch potatoes they serve, to rip apart at the seams. Putting prevention at the centre of national health-care strategies would increase the pressure on providers to educate consumers about the importance and costs of not taking care of yourself properly.

Paul Summerville
Tokyo

SIR – You omit the central issue of measuring and managing success in health care: determining whether spending billions leads to improved patient well-being. Measures of success in restoring patients' well-being have been available for decades and used in hundreds of clinical trials. In the 1860s, Florence Nightingale advocated outcome measurement in terms of whether patients were "dead, relieved or unrelieved". Until others emulate Nightingale's advocacy we will continue to waste resources in all health-care systems.

Alan Maynard
University of York
York

Super-sized portions

SIR – Having sampled the delights of *cuy* in several Peruvian cities, I am fascinated by the development of a super-*cuy* ("A guinea pig for all tastes and seasons", *The Economist* print edition, July 17th). The scientists are to be lauded for changing the ratio of small bones to flesh but they certainly have not been able to convert metric equivalents. Even in Peru, three kilos is far less than ten pounds.

A.H. Saulniers
New Bedford, Massachusetts

The secret's out

SIR – Regarding the mysterious disappearance of highly sensitive classified data on nuclear-weapons research at Los Alamos, perhaps we should now question whether this whole programme should be abandoned ("Yet another breach", July 24th). America already has both the weapons and technology to make it predominant. If the current research to make ever more destructive or "smarter" bombs is of questionable benefit, perhaps the danger of this technology falling into the wrong hands outweighs its potential for national security.

John Burton
Washington, New Jersey

Read all about it

SIR – Your comments on our book, "Bad News from Israel", seem designed to stop people reading it rather than to review its actual content ("The long fall from grace", July 31st). You conclude by saying "read something else", yet give a false account of our methods, analysis and conclusions. Our method does not consist of saying that journalists should give a single account of the conflict. Rather, we show a range of possible explanations and then indicate which are highlighted in the news and the influence that this has on public understanding. We found that Israeli government perspectives were heavily featured in news programmes and were reinforced by the views of American politicians, who were interviewed twice as much as even those from Britain.

Greg Philo
Glasgow University Media Group
Glasgow

Textual analysis

SIR – You cite technophobia, France Telecom's dominance and inadequate pricing as the main reasons why the French send fewer text messages than other Europeans ("Je ne texte rien", July 10th). Another explanation is our fearsome love of *orthographe impeccable*, imposed on us by years of daily dictations at

school. Many people of my age are reluctant to use the abbreviations or phonetic spelling that texting requires. The younger generation takes a more relaxed view. No wonder our proud defenders of the noble French language view text messages as a redoubtable enemy.

Hervé Claret
Lyon

SIR – As a Brit who has lived in France for 15 years and who has been married to a French woman for 39 years there is another factor which makes the French averse to using text messaging: verbosity.

Michael Thomson
Trouville-sur-mer, France

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Sport and drugs

Ever farther, ever faster, ever higher?

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The Athens Olympics will be a crucial battle in sport's war on drugs

“OLYMPISM seeks to create a way of life based on the joy found in effort, the educational value of a good example and respect for universal fundamental ethical principles.” So said Baron Pierre de Coubertin, the founder of the modern Olympic games. Alas, there is every chance the 28th summer Olympiad, which opens in Athens on August 13th, will make headlines less for the joy of effort—and still less for good example or respect for universal ethics—than for athletes caught cheating with performance-enhancing drugs.

The past year has brought plenty of evidence that “doping” is rife. In June 2003, a syringe containing a hitherto unknown and undetectable steroid, tetrahydrogestrinone (THG), was sent to America's Anti-Doping Agency (USADA), apparently by a disaffected coach. Speedily designed tests, some applied retrospectively to old urine samples, showed that use of THG had been widespread among top athletes. The drug was allegedly made by BALCO (the Bay Area Laboratory Co-operative), in California, as a “nutritional supplement”. BALCO's clients included many top sports stars, such as Tim Montgomery, world champion in the 100m sprint; his partner, Marion Jones, the reigning women's Olympic 100m champion; Shane Mosley, a former boxing world champion; several members of the Oakland Raiders American football team; and Barry Bonds, who holds baseball's record for the most home runs in a season.

Although some of these athletes deny using THG, others have already been banned from their sport for doing so, including Dwain Chambers, a top British sprinter. The USADA is seeking a lifetime ban for Mr Montgomery. After wide investigations, criminal charges have been brought against several people connected with BALCO—though no athletes, as yet—including its boss, Victor Conte, who has been indicted for allegedly supplying illegal drugs and laundering money. A lawyer for Mr Conte has hinted that other well-known athletes, due to compete in the Olympics, have yet to be identified as THG users, and that his client may be prepared to name them as part of a plea-bargain.

But the litany of recent illegal drug use stretches far beyond BALCO. Even cricket, the sport of gentlemen, has been tainted. Shane Warne, an Australian spin bowler, was banned for a year for taking a drug that can be used to mask steroids; on his return, he rivalled the record for the highest number of wickets taken in a Test (a record he shares, ironically, with a Sri Lankan who has been accused of cheating in a more old-fashioned way, by using an illegal bowling action). In soccer, England's top

defender, Rio Ferdinand, was banned for eight months for failing to take a mandatory drug test.

Another Briton, Greg Rusedski, escaped a ban this year despite testing positive for nandrolone. The tennis star argued that he had been given the steroid without his knowledge by officials of the sport's governing body, the Association of Tennis Professionals (ATP). In 2003, the ATP let off seven unnamed players who failed drug tests, apparently for the same reason. Drug scandals have erupted in rugby league, ice hockey, orienteering, the triathlon and so on and on.

Cycling has provided many milestones in the history of doping in sport, including the first sportsman allegedly to die as a result of taking drugs, Arthur Linton, in 1896, and the first drug-related death during a televised event, of Tom Simpson, in the 1967 Tour de France. It continues to be rife with drug-taking. David Millar, a British world champion, has admitted taking steroids. Several top cyclists were recently accused of using a room at the Australian Institute of Sport as a “shooting gallery” in which they injected drugs. Even Lance Armstrong, the American cyclist who (inspirationally) recovered from cancer to become a multiple winner of the Tour de France, entered this year's race—the sixth he has won—embroiled in a court battle with the authors of “L.A. Confidential”, a book alleging that his achievements were not wholly above board. Mr Armstrong strenuously denies the allegations, and in 2000 even joked about them in a Nike commercial: “What am I on? I'm on my bike, six hours a day.”

Recent drug scandals have led to much rewriting of the record books, as well as the return of unfairly won medals and trophies. Mr Millar will have to give back his world-champion's rainbow jersey. Michael Johnson, an American runner, may have to return a gold medal because a fellow member of his 4x400m relay team was found guilty of drug-taking. Tragicomically, Anastasiya Kapachinskaya, a Russian runner, had to give back her world indoor 200m gold after failing a drug test, but at the same time was handed the previous year's outdoor 200m gold after the woman who beat her, Kelli White, was banned for taking performance-enhancing drugs.

In such a climate, the validity of almost any outstanding sporting achievement is likely to be questioned. And politicians have got interested. George Bush even referred to the problem in this year's state-of-the-union address, calling on those in charge of sport to “get tough and to get rid of steroids now”. Stopping doping is now at the forefront of Mr Bush's broader war on illegal drugs—not least, cynics say, because it is probably easier to notch up a big success in tackling steroids in sport than to stop cocaine crossing the Mexican border. The BALCO indictments were announced not quietly, by some local prosecutor, but in a blaze of publicity by John Ashcroft, Mr Bush's attorney-general.

Congress has also jumped in. The Senate Commerce, Science and Transportation Committee—sport being commerce—issued a subpoena to obtain documents from the BALCO investigation, which it then handed over to the USADA. In July, a committee of British MPs produced a report that criticised the inconsistent treatment of drug offences by the governing bodies of different sports.

Victorian values

Faced with so much evidence of doping, and with the fact that the discovery of THG was a lucky break and not the result of new detection techniques, you might expect the chief crusaders against drugs in sport to be thoroughly depressed. Yet Dick Pound, a Canadian former Olympic swimmer who now runs the World Anti-Doping Agency (WADA), could hardly be more upbeat. He regards the Athens Olympics as a potential turning point in the war against doping and, though he does not proclaim certain victory, he thinks he has the drug cheats on the run.

Mr Pound is an idealist in the Victorian mould. It was the Victorians who formalised the rules of many of the sports played today, imposing order on what was then anarchy. They saw in sport a way to educate the populace in the importance of the rule of law, and to deepen character by teaching how to play hard but fair: to, as Rudyard Kipling put it, “meet with Triumph and Disaster/And treat those two impostors just the same”. De Coubertin's Olympism was the summit of that Victorian idealism.

In a similar spirit, Mr Pound, as he explains in his new book, “Inside the Olympics” (Wiley), sees sport, and in particular the Olympic movement, as providing young people with the “ethical platform” they need to guide them in a “world that has lost its ethical path”. Sport, he says, “can provide an extraordinary value system for today's and tomorrow's youth”. But only if it can end the “moral decay” in sport itself, of which doping is a big, though not the only, part: Mr Pound also headed an investigation into corruption in Olympic bidding after a scandal before the opening of the Salt Lake City Winter Olympics in 2002.

His old-fashioned idealism, and his readiness to criticise those who do not share his enthusiasm for WADA—created by the International Olympic Committee (IOC) and various member governments in 1999, but very much his baby—has made him a controversial figure. Sepp Blatter, head of FIFA, the governing body of soccer, once described WADA as a “kind of monster”. The saintly cyclist Mr Armstrong even criticised Mr Pound in an open letter in March, after he said that Tour de France cyclists were known to be taking banned substances. “Athletes need to be confident that WADA's programmes are run by fair and straightforward people,” said Mr Armstrong.

None of this seems to worry Mr Pound. WADA today is no longer the six-stone weakling it seemed to be at the 2000 Olympics in Sydney, the first at which the Olympic oath sworn by the athletes included the phrase, “committing ourselves to a sport without doping and without drugs”. It has come up with many new tests. For instance, samples collected in Athens are expected to be subject to new tests for human growth hormone, either at the games or later.

More crucially, in order to take part in Athens, the world governing body of each sport in the games has had to sign up to the world anti-doping code, agreed in 2003. This created, among other things, a single list of banned substances, a standard set of sanctions for offenders and a dispute-resolution mechanism through the Court of Arbitration for Sport. All the governing bodies have now signed up, though some have attached caveats that WADA may not agree to at future Olympics. FIFA, for example, has won an exemption from the code's blanket two-year ban for offenders.

Cold war temptations

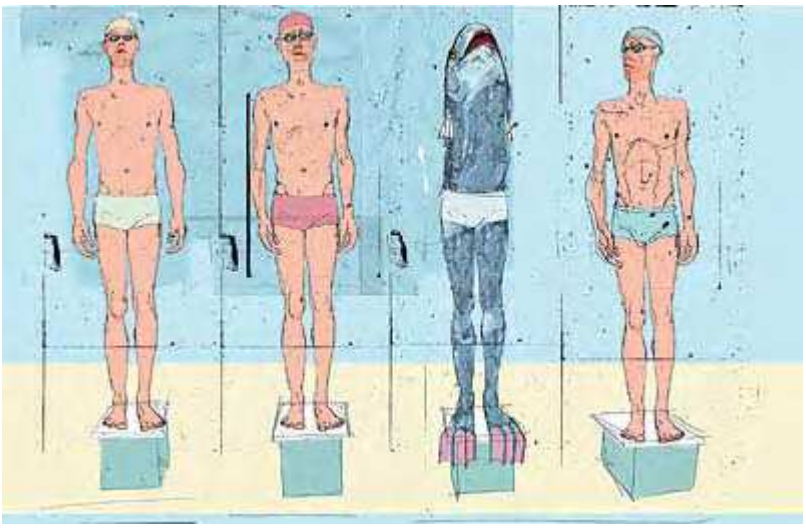
Drugs have been part of sport since at least the 1860s, when swimmers in Amsterdam's canal races were doped in various ways, and long before then if alcohol is counted. In the 19th century, alcohol and strychnine were commonly used to ease pain during boxing bouts. The technology of doping has clearly advanced in leaps and bounds since then. But Mr Pound reckons that the failure, at least until now, to tackle the problem owes less to inability to keep pace with science than to lack of will. WADA is the first systematic attempt to test thoroughly for doping, and to punish offenders severely.

Why has it taken so long? One “excusable” factor, says Mr Pound, was that until the “Olympic economic model” changed, sometime in the 1980s, many sports did not have the money to carry out proper tests. Less excusably, he says, many simply turned a blind eye to the health risks of doping. And during the cold war, many communist countries did not hesitate to dope in order to win. Eastern Germany and, more recently, China at times systematically doped their athletes, often without telling them; who can forget the then female, now male, East German shot-putter nicknamed “Hormone Heidi”? Western countries, desperate to hold their own, often ignored drug-taking by their own athletes if it brought them success.

Some of that cold-war mentality still persists, says Mr Pound. Some governments, including America's, have been slow to make promised payments to WADA's budget. Arguably, it took the BALCO scandal to shock America's Olympic Committee into getting serious about doping. This spring Michele Verroken, until this year the head of anti-doping at UK Sport, told a committee of MPs that she may have lost her job because her strong stance on cheating could have damaged Britain's bid to hold the 2012 Olympics in London. Mr Pound thinks that governments will take the problem far more seriously in future, not least because public anger—combined with governments' full adoption of the WADA code, probably in 2005 in the form of a United Nations convention—will force them to do so.

Public outrage about drug-taking, and the widespread consensus that certain substances must be banned from sport, is unlikely to change. As Mr Pound points out in his book, the catalyst for the creation of WADA was the public fury that greeted remarks made in 1998 by the then head of the IOC, Juan Antonio Samaranch. Watching reports of the arrest of cyclists in the Tour de France after police had discovered doping substances, Mr Samaranch commented to a journalist that prohibited drugs, whether performance-enhancing or not, should be limited to those that are dangerous to health, and that the (then) current list of banned substances was too long. At the emergency meeting of the IOC board soon afterwards, WADA was born, with a philosophy of banning that was a long way from Mr Samaranch's.

To be banned by WADA, a drug has to meet at least two of three criteria: it must enhance performance, be harmful to health and (a very Victorian touch) be against the spirit of sport. Clearly, this would allow a drug to be banned if it had no adverse health effects but was, even so, ruled contrary to whatever is deemed to be the spirit of sport. Mr Pound, for one, seems to regard any use of a drug to enhance performance as against that spirit: it is, quite simply, cheating.



A fierce critic of this approach to drugs in sport is Norman Fost, director of the medical-ethics programme at the University of Wisconsin. He calls the claims made about the harmful effects of steroids “incoherent and flat-out wrong”. Mostly, they have small, temporary side-effects, he says, not life-threatening ones. Indeed, the risks are much smaller than those routinely taken by athletes. A man who plays American football professionally for three years has a 90% chance of suffering a permanent physical injury.

If health is the chief concern, surely certain sports should be banned entirely—and athletes should not be allowed to smoke or drink, activities that do far more harm than taking steroids. As for enhancing performance, that is not seen as cheating if it is done by, say, training at high altitude or in a sealed space that simulates high altitude, says Dr Fost, though such training would have exactly the same effect—an increase in oxygen-carrying red blood cells—as the banned steroid EPO, which is especially popular with cyclists.

Gary Wadler of the New York University School of Medicine, who is a member of WADA, dismisses such arguments as “university debating points”, and notes that athletes may have no idea of the risks they are running when they take drugs. He blames the 1994 legal change that exempted many dietary supplements from approval by America's Food and Drug Administration, spawning an $18 billion vitamins industry that is now a powerful lobby against re-regulation.

Setting their own rules

In principle, the best way to decide how much performance-enhancement and health risk is acceptable would be by a vote of those who play the particular sport. Yet Mr Pound directs some of his strongest criticism at so-called “professional sports” (aren't all sports professional nowadays?) that are self-regulated, such as tennis and baseball. WADA currently has no authority over these sports. In major league baseball, with its powerful players' union, the drug-testing regime is part of contract negotiations and is extremely relaxed—last year, 5-7% of drug tests showed positive, but offenders were hardly punished.

Arguably, if all the players agree that using performance-enhancers is not cheating, then it isn't really cheating. But Mr Pound reckons that baseball players are badly led, by people who care more about making money than about the true values of sport. He maintains that baseball's top officials are much more upset by players caught using recreational drugs, such as cannabis, which hurt their brand, than about performance-enhancing drugs, which, after all, may make the game more exciting.

The biggest challenge to WADA is to devise tests to keep up with advances in doping. None will be trickier than the expected emergence of gene therapy, starting with treatments for, say, muscular dystrophy. Hoping to anticipate future doping strategies, WADA held a conference with leading genetic scientists in 2002. Unfortunately, it seems that the likeliest way to detect gene therapy is a muscle biopsy, which, Mr Pound mercifully concedes, is “too invasive”. Instead, WADA is calling for research, to be funded by itself and governments, into how to identify whether gene therapy has been used. Mr Pound hopes that governments will make creating such a test a condition of winning regulatory approval. Alas, this strategy is rather unlikely to work.

And will the public endorse Mr Pound's Olympian idealism? Certainly, parents seem to be warming to his message that “children shouldn't have to become chemical stockpiles to succeed in sport, or be cheated by those who are”—though will they still do so when they think that, with a little help, Junior might become the next Barry Bonds? Surveys suggest that 2.5% of eighth-graders (13-14-year-olds) have used steroids. UK Sport recently launched “Start Clean”, a programme to stop sporty 12-17-year-olds resorting to performance-enhancing drugs. Yet it is hard to see the trend reversing when, outside sport, performance-enhancement seems ever more central to modern life—thanks to Viagra, Prozac, Ritalin and the rest. And, if doping were defeated, would sports fans really be content with the lack of record-breaking feats?

It would be nice to think so. Yet much of this debate may be academic if WADA fails to create tests to spot the use of gene therapy. Watch out for a surge in world-record breaking in the 2012 Olympics. In the meantime, may the best man or woman win (and we don't mean you, Heidi—sorry, Andreas).

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The terror alert

Waiting, worrying and working out the consequences

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From The Economist print edition

AP

The spectre of terror comes back to haunt the country—and the election

IF YOU want to visit New York's big financial firms, you are best off carrying no change, no keys and no briefcase. After last weekend's increase in the terrorist threat level in three large cities, garage attendants began checking the boots of cars; direct routes to lower Manhattan were barred to anything carrying more than passengers; ferry people checked hand-held baggage; streets around the Capitol in Washington were closed; and some New York landlords were told to secure ventilation systems against chemical attacks.

The immediate cause of the new security measures was said to be the discovery two weeks ago of documents from an al-Qaeda cell in Pakistan showing terrorists had been surveying large financial institutions in New York, Washington, DC, and Newark, New Jersey. But the timing of the news, coming three days after the Democrats' convention, raised the great imponderable question of the 2004 election: what would happen if al-Qaeda were to attack America before election day? It is easy to say such an event would transform the race; much harder to predict how it would do so.

The first question is whether an attack is likely. Perhaps the strongest evidence in its favour is the fact that al-Qaeda has already disrupted one election—that in Spain in March—and followed that up with a tape, purportedly of Osama bin Laden, welcoming the result. Last month, Tom Ridge, the chief of homeland security, said “al-Qaeda is moving forward with plans to carry out a large-scale attack in the United States aimed to disrupt our democratic process.”

On the other hand, as the September 11th commission's report shows, al-Qaeda's attacks are minutely planned years in advance. Most, though not all, of the information that triggered this week's alerts concerned the early surveillance stage dating back several years, rather than later operational activities. Such well-laid plans might not be easily changed to take advantage of shifting political winds.

In Spain, al-Qaeda got a pleasing result—a Socialist victory, followed by the rapid withdrawal of Spanish troops from Iraq. In America, its interest is not so clear. Being credited in any way with toppling George Bush would be a propaganda coup; but Mr Bush, by increasing American unpopularity in the Arab world, has also deepened the pool of potential recruits and speeded up what al-Qaeda sees as a desirable confrontation between America and Muslims.

Moreover, the electoral consequences of a terrorist attack would be unpredictable. Most people think Americans would rally round the president. On the other hand, the effect could soon wear off, leaving voters receptive to John Kerry's claim that Mr Bush had not done enough to make the country safer. There is simply no way of telling. Shibley Telhami of the Brookings Institution concludes that al-Qaeda is more likely to continue planning its attacks without regard to America's electoral timetable or outcome.

Given the difficulty of thinking straight about the impact of any attack, or even whether there might be one, it is not surprising that reactions to the threat of “another 9/11” have been mixed. In day-to-day life, Americans seem to have taken the security hassles in their stride. If you had guessed New York's inventive graffiti artists might have started mocking the measures, you would have been wrong. The city seems to have welcomed the even greater numbers of police on its streets. The Dow rose the day after the warning, but insurance stocks are trading at low multiples of earnings, reflecting a hidden liability—the expected costs of paying claims after a future attack. Fear, it seems, has been priced in.

Political debate, on the other hand, has been less cold and less rational. In mid-July, Beltway pundits got feverishly excited over a report that the administration had asked the Office of Legal Counsel whether it could postpone the presidential election if there were a big terrorist attack. In fact, there was no proposal to postpone the vote and Mr Bush has no such constitutional authority. Meanwhile, pleas to address questions like how Congress could function if many of its members were killed or incapacitated have largely fallen on deaf ears.

Democrats have repeatedly accused the administration of manipulating terrorism warnings for political gain. Last month, they wondered whether the scare about an election postponement was a ploy to distract attention from the announcement that John Edwards would be Mr Kerry's running mate. Responding to this week's heightened alerts, Howard Dean mused “it's just impossible to know how much of this is real and how much of this is politics, and I suspect there's some of both in it.”

Large numbers of Mr Bush's opponents are convinced Osama bin Laden is locked up and waiting to be revealed in handcuffs in an “October surprise”. All this is the mirror image of Republican accusations that Bill Clinton attacked Afghanistan to divert attention from the Lewinsky scandal.

In fact any renewed worries about another terrorist attack—as opposed to a real attack—might not change the electoral arithmetic as much as Democrats fear. Reminding voters of America's vulnerabilities almost certainly helps Mr Bush in the short term. Voters think of him as the more resolute and the more likely to strike America's enemies. But Mr Kerry is narrowing that perception gap (see article). And the more the public pays attention to the wider war on terror, the more he can talk about his own plans for Afghanistan and intelligence reform, which are more ambitious than Mr Bush's.

Mr Bush moved to correct that impression this week by announcing that he would accept two of the main recommendations for reforming the intelligence services put forward by the September 11th commission. These are to create a new director of national intelligence and a revamped counter-terrorism threat centre. Mr Kerry had endorsed the two ideas.

This sounds calmer and less partisan. But even here, debate has been thoroughly misleading. Mr Bush claimed he was acting on the commission's recommendations. In reality, he would not give the new spy director cabinet rank or budgetary control, which the commission argued was essential. His proposed reorganisation of the agencies that would report to the new threat centre also went less far than the commission had proposed.

The Democrats jumped on these points. In fact there are good arguments on both sides: keeping the new spy director out of the White House, for instance, might keep him independent. But the merits of the proposals are already being lost in confusing and inflated claims. For better or worse (but mostly for the worse), terrorism and intelligence have become part of the election's mudslinging.

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After the Democratic convention

Measure for measure

Aug 5th 2004 | WASHINGTON, DC
From The Economist print edition

How well did John Kerry do?

Get article background

EPA

Hard to embrace?

CONVENTIONAL wisdom (excuse the pun) holds that party conventions should not be judged by how they appeared in the hall at the time. They are best measured during the few days afterwards, by opinion polls that show the size of the candidate's “bounce” and by the media consensus that emerges on how the party's ticket is doing (this means journalists are making the news they cover, but never mind). By these marks, the Democrats' event was a surprising failure.

Take the media wisdom first. The *Washington Post*'s David Broder, the dean of the press corps, damned John Kerry's acceptance speech with faint praise: “He did not blow his big moment.” Mr Kerry's subsequent bus tour, in which he touted his deficit-reduction and economic plans in swing states, opened to less than rave reviews.

The polling evidence seems to confirm the press's dim view. A Gallup poll taken just after the convention showed George Bush jumping up five points (more of a Kerry splat than a bounce). That poll was probably an outlier. Other polls of registered voters, including our own one, suggest Mr Kerry has increased his lead over the president by four to eight points (see table). That is well below the double-digit jumps recorded by previous candidates.

So is Mr Kerry in serious trouble? Probably not. As both parties point out, barely a tenth of the electorate is still undecided, compared with a third or more in previous years. That means there are fewer people open to persuasion, and less room for a bounce. The gravitational effect of the 50-50 nation is holding the poll numbers near parity.

Below the headline numbers, though, Mr Kerry is doing very nicely, thank you. Before the convention, voters said they trusted him to do better than the president on most domestic-policy issues by narrow margins. They trusted the president to do better on national security, often by large margins. After the convention, Mr Kerry is ahead on everything except terrorism and “being a strong leader”.

Moreover, Charlie Cook, a veteran political observer, argues that a stable horserace is actually better for Mr Kerry than it looks. Undecided voters usually break for the challenger by two or three to one (because people likely to back the well-known incumbent have already made up their minds to do so). Mr Cook's polling also finds undecideds to be mostly anti-Bush in their attitudes. A race that is still tied now is good news for Mr Kerry.

Perhaps the best way to look at the race is this: some 53% say they do not think Mr Bush deserves to be re-elected. Around 45% support Mr Kerry. The competition is for the 8% in the

middle. At his convention Mr Kerry laid the foundations for increasing the 45%, though he has not managed to budge it much yet. Now Mr Bush must use the Republican convention to drive down that 53% figure.

Bouncier than you think

% of people who say they would vote for either George Bush or John Kerry
(most recent poll taken before John Kerry's speech)

Poll and date of fieldwork*	Bush	Kerry	Kerry shift†
The Economist/YouGov August 2nd–4th	43*(44)*	48*(45)*	4
Gallup July 30th–August 1st	48*(43)*	47*(47)*	-5
Newsweek July 29th–30th	42*(44)*	49*(47)*	4
Washington Post/ABC July 30th–August 1st	44*(48)*	50*(46)*	8

How do you think each candidate would handle each of these issues over the next four years if he were elected president in November? %‡
(most recent poll taken before John Kerry's speech)

	Bush	Kerry	Kerry shift†
The economy	55*(53)*	65*(57)*	6
Health insurance	49*(46)*	67*(59)*	5
The war in Iraq	50*(50)*	53*(44)*	9
The war on terrorism	56*(54)*	54*(47)*	5
Taxes	53*(52)*	54*(47)*	6
Relations with allies	51*(52)*	66*(58)*	9
Same-sex marriage	42*(44)*	48*(44)*	6
How do you think each of the following statements applies to the candidates? %‡			
Cares about people like me	44*(46)*	56*(53)*	5
Flips-flops on issues	33*(35)*	56*(55)*	3
Is a strong leader	56*(58)*	55*(48)*	9

*Registered voters †% point change in relation to Bush ‡YouGov, August 2nd–4th and *(July)*

Source: *The Economist*/YouGov and other polls listed

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The electoral week

On the trail

Aug 5th 2004
From The Economist print edition

Line of the week

"I'm John Kerry and I'm reporting for duty."

The candidate opens his speech to the Democratic convention, July 29th

What's a guy gotta do?

"Go, balloons. Go, balloons. Go, balloons...Come on, guys! Let's move it. Jesus. We need more balloons...Go, confetti. Go, confetti. Go, confetti. I want more balloons...Why the hell is nothing falling? What the (beep) are you guys doing up there? More balloons. More balloons."

The Democratic convention producer pleading for balloons to fall after Mr Kerry's acceptance speech; his remarks were broadcast live on CNN, July 29th

Hath hell freezed over?

"I thought it was an outstanding speech. I think it's the best speech that John Kerry delivered...If I did not know Kerry's past record and all I had to judge this man by was what I saw tonight, I could readily vote for him."

Pat Buchanan, MSNBC, July 30th

In case there was any doubt

"John Kerry is not Jesus or Joan of Arc, but Democrats must learn guile."

Norman Mailer speaking in Massachusetts. New York Post*, August 2nd*

Revelation of the week

"I am not pretty."

Dennis Hastert comes clean to promote his new book. The House Speaker also revealed that he still knows how to deliver a ewe by caesarean section, USA Today*, August 3rd*

Entrepreneurs of the week

The bank robbers of Davenport, who took advantage of both presidential candidates' visiting the lava town on the same day to "knock over" three separate banks as police were distracted.

KWWL Iowa, August 4th

Femme du peuple (contd)

“You could tell she wasn't familiar with the menu.”

A Wendy's manager on Teresa Heinz Kerry's visit to his ketchup-infested joint with her husband. The Edwards couple knew exactly what they wanted. The New York Post *claimed that the Kerrys had sneaked in “fancy food” to eat secretly on their campaign bus after undergoing the ordeal, August 4th*

Witty Wisconsin

“They want four more years of hell.” *Mrs Kerry responding to Bushite chants of “Four more years” at a Wisconsin rally. CBS Morning News, August 3rd*

Probably got upgraded too

“It's not unusual for us to divert an airplane when we've exhausted other means of trying to get passengers to their destinations.”

US Airways explains why a Boston to DC flight went via Albany, picking up among others Jenna and Barbara Bush. New York Daily News*, August 4th*

It's like the Beatles

“If the proceeds from my songs go to the Democratic National Convention, I'll be worked up.”

A Republican member of John Kerry's school band on the rerelease of their album. New York Daily News*, August 2nd*

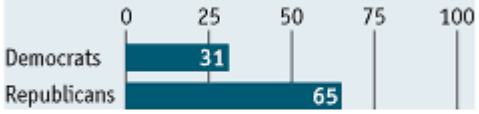
Swan?

“Like the ugly duckling”

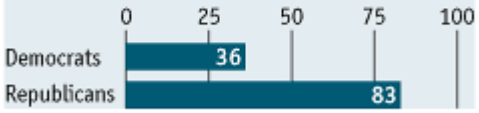
Mr Kerry on how he felt standing next to John Edwards and Ben Affleck, a movie star. Los Angeles Times*, August 2nd*

The Economist/YouGov poll

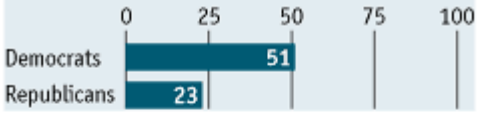
% of people who are optimistic about the long-term prospects for democracy in Iraq



% of people who think that life for Iraq's citizens is better now than when Saddam Hussein ran the country



% of people who think US troops should be withdrawn from Iraq within the next few months



Thinking about the Israeli-Palestinian conflict, do you feel more sympathy towards the Israelis or Palestinians?

	Israelis	Palestinians	Both
Democrats	17	14	48
Republicans	45	3	34

How much help does the US give to Israel?

	Too much	Too little	About right
Democrats	45	9	22
Republicans	22	18	46

Source: YouGov. Poll of 2,421 people conducted August 2nd-4th

More information at www.economist.com/yougov

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California's dysfunctional government

Blowing at boxes

Aug 5th 2004 | LOS ANGELES
From The Economist print edition

An ambitious effort by Sacramento's standards, but hardly structural reform

Get article background

“EVERY governor proposes moving boxes around to reorganise government,” declared California's Arnold Schwarzenegger back in January. “I don't want to move boxes around. I want to blow them up!” And the fuse? Supposedly the 2,500-page “California Performance Review” formally presented to him on August 3rd. If all of its 1,200-and-more recommendations are implemented, America's most populous state will be efficient, friendly for both business and consumers—and its taxpayers will save some $32 billion over the next five years.

And pigs may fly. That at least is the conventional wisdom in Sacramento, where the report is characteristically seen as overambitious. What looks good on paper—$12.4 billion saved over five years in general government spending; $4.9 billion in health and human services; $4.1 billion in education; $3.4 billion in infrastructure, and so on—may well stay on paper.

Take just a few of the more obvious problems. The unions, backed by the Democratic majority in the Sacramento legislature, will surely oppose a proposal to trim the number of state employees by 12,000 to 207,000 in the 2009-10 financial year (with an average saving to the state of some $800m a year). Local authorities will object to being made responsible for 6,500 “lane-miles” of California's 50,000 miles of state highway ($100m). Many young mums will resist the idea of changing the date for entry into kindergarten ($690m). Environmental groups will complain that the closure of the Air Resources Board will lead to more pollution. The appointees on another 117 of California's 339 boards and commissions also selected for a long-overdue cull, will also howl.

Even the positive-thinking Mr Schwarzenegger acknowledges that the special interests “will be screaming”. But he argues that “their agenda is not the people's agenda. The people know that California needs many new reforms: prison reform, energy reform, government reform.”

Absolutely, but for prison reform “the people” will have to plough through a side report written by a team led by ex-Governor George Deukmejian. The woeful state of the prisons, which cost $6 billion a year but boast the nation's highest rate of recidivism, is correctly blamed on “too much political interference, too much union control, and too little management courage, accountability and transparency.” But will anything change? Mr Schwarzenegger, in his frantic effort to balance the budget, has actually strengthened the grip of the prison guards' union.

As for energy reform, the Performance Review recommends putting all energy infrastructure in the care of a single body. That will not solve the state's energy deficit. After all, there has not been an oil refinery built in California for 35 years, and any new power-stations will have to confront the state's well-developed Nimby reflex.

On government reform, the Performance Review acknowledges that a system that was once the envy of the nation is “chaotic and cumbersome”. It suggests hundreds of sensible-looking ideas. Why not save $74.5m over the next five years by negotiating cheaper air fares? Or $103m by getting state agencies to communicate with each other through the internet? Or $1 billion by charging “fair market value” to non-resident undergraduates at California's colleges and universities? Or $970m by using performance-based contracts? Even if the numbers look ambitious, these are the sort of things that people in the private sector get fired for not trying.

The real problem with the report is all the things that are not in it. California government will never be

efficient as long as it is divided between a hodge-podge of wildly different sized cities, counties and boards. There is nothing about that sort of structural reform; nor about examining Proposition 13, whose restriction on property taxes ties up far too much of the budget and helps politicians avoid responsibility; nor about re-examining the legislature's composition; nor about the two-thirds majority needed in the legislature to pass a budget; nor any of the out-of-date rules behind the most dysfunctional government in the union.

Can Mr Schwarzenegger make anything of it? When Governor Pete Wilson, a fellow Republican, commissioned a similar report a decade ago, the legislature ignored it. Already, Democrat lawmakers are describing it as a power-grab by the governor. John Burton, the Democrats leader in the state Senate, accuses the reformers of “clearly biting off more than anyone could conceivably chew.”

On the other hand, the governor's ultimate weapon remains his star quality: the ability to bypass the lawmakers and speak directly to an admiring public. He found that weapon too blunt to use in his complex tussle with the legislature over the just-signed budget, but it could be perfect for reforming government.

After a period of public review, Mr Schwarzenegger must submit a final version of the report to the lawmakers next year. Fabian Nuñez, the Democratic speaker of the Assembly who ground down the gubernator over the budget, says only a “close to perfect” reform package will be approved. Mr Nuñez has already criticised the reviewers for being too close to big business.

Yet perhaps one threat deserves another. The rumour from the Schwarzenegger camp is that the governor might call a special election next year to ask the voters to get rid of their full-time legislature and have only part-time lawmakers. That would certainly be blowing up one box—and it might persuade the Democrats to start talking about proper reform.

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The Missouri primary

A governor falls

Aug 5th 2004 | ST LOUIS
From The Economist print edition

And Dick Gephardt's probable successor is chosen

FOR months, the governor's race in Missouri has been a headache for the Democrats. It is a state John Kerry must win in November. But the Democratic primary contest between Bob Holden, the incumbent governor, and Claire McCaskill, the state auditor, split them down the middle. As a result, both Mr Kerry and John Edwards avoided the state like the plague, leaving the Bush camp to claim that the Democrats had written it off.

On August 3rd the contest reached a bitter conclusion when voters, for the first time in the state's history, threw out the incumbent in the primary. Coincidentally or not, Mr Kerry arrived in Missouri to start patching things up. This is necessary, for the fight was nasty, and things got personal. Mr Holden accused Ms McCaskill of allowing state payments to nursing homes owned by her husband, even after reports of abuse and wrongful deaths there. Ms McCaskill hit Mr Holden with a laundry list of alleged misdeeds and shortcomings. Her mud stuck better than his.

The real winner so far has been Matt Blunt, the Republican secretary of state, who will face Ms McCaskill in the autumn. Mr Blunt, whose office oversees elections, has had some muck come his way: critics say he spent $48,000 in taxpayers' money to run newspaper ads promoting the primary with his beaming face plastered on them. Well financed and unrestrained, Mr Blunt may prove a strong challenger.

In the Senate primary, Nancy Farmer, the Democratic state treasurer, beat the rest of the field and will face Christopher “Kit” Bond, long a fixture in Missouri politics. (He was elected governor, in 1972, at the tender age of 33.) At 65 the “boy-governor” act, emphasised by his childhood nickname, is starting to wear thin, with little to show for his time in Congress. But money will probably give him the edge. Meanwhile, the race to succeed Dick Gephardt, who gave up his St Louis congressional seat to run for the White House, was won by Russ Carnahan, a state representative who is the son of the late governor, Mel, and Jean, who served as the state's senator in Washington.

Apart from throwing out the governor, Missouri behaved conservatively. Voters rejected gay marriage, overwhelmingly adopting a constitutional amendment defining marriage as the union of one man and one woman. They also scorned the idea of building a casino near Branson, where pastel-suited lounge lizards go to croon when they grow too old for Vegas.

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Swing states: Nevada

Take a chance on me?

Aug 5th 2004 | LAS VEGAS
From The Economist print edition

The fastest-growing state in the union has backed the winner in the past six elections. Its prosperity helps George Bush, but demography is on John Kerry's side

JUST what are the electoral odds in America's gambling capital? Sig Rogich, a Republican consultant whose clients have ranged from Ronald Reagan and George Bush senior to the ear-biting Mike Tyson, says confidently: “George Bush has been proactive on water, open land, ranching, mining—from that perspective, this is his state to lose.” Yet Jon Summers, spokesman for Nevada's Democrats, says with equal conviction: “So far John Kerry has come out with everything right for the state. Nevada is Kerry's to lose, even with the Ralph Nader factor.”

Maybe they are both right. Even by the standards of the American west, Nevada is a schizophrenic state. Devout Mormons and evangelical Christians co-exist with the “Sin City” attractions of Las Vegas and Reno. Respectable suburbia is within sight of the Vegas Strip. In 1990, fearing that *Roe v Wade* might be overturned, the electorate voted to safeguard abortion rights. In 2000, it overwhelmingly approved the medical use of marijuana, but two years later voted against the possession of small amounts of the drug for personal use. A libertarian instinct has led to the acceptance of instant marriage, near-instant divorce and, in some counties, legal brothels. Yet there is also a strong conservative strain, which has twice brought heavy votes against same-sex marriages.

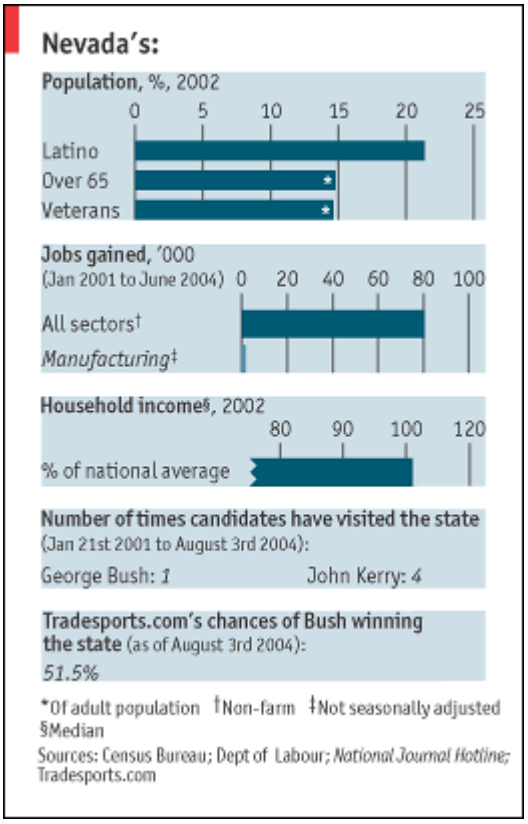
At least Messrs Rogich and Summers agree that the contest will be agonisingly close. In the 1990s Nevadans twice voted narrowly for Bill Clinton; in 2000 they gave 49.5% of their vote to George Bush and 45.9% to Al Gore. This time round most pollsters say Nevada is leaning towards Bush—but it would be foolish to bet on it.

Mr Bush's heartland is the north of the state. Drive up from Las Vegas through the desert and scrub, and the voters become ever more Republican. The north's ranchers and miners like his relaxation of environmental rules—but they account for just 25% of the electorate. He also has a pretty firm grip on Reno and Carson City.

By contrast, Clark County, home to Las Vegas and 1.6m of the state's 2.2m people, seems to be getting gradually more Democratic. Clark's population has been growing even faster (by 85% in the 1990s) than that of the state as a whole (66%). Many of the newcomers in the early part of that decade were conservative white Californians, fleeing their state's high taxes. But they have been balanced by more liberal recent arrivals, and a huge influx of Latinos, who now account for one in five Nevada residents (compared with one in ten in 1990). Democratic-leaning unions representing service workers who work on the Strip and in Las Vegas's tourist industry have been signing up Latinos.

So far these Democratising trends have not had much impact on the state's politics. From Governor Kenny Guinn down, all six of

the state's executive offices are held by Republicans. So is one of the two Senate seats, and two of Nevada's three seats in the House of Representatives. Though redistricting in 2001 increased the weight of Clark County in the state legislature, the 2002 election gave Republicans a 13-8 advantage in the Nevada Senate, and they hold 19 of the 42 Assembly seats.



Can Mr Kerry push through? One barrier is the presence on the ballot of Ralph Nader (credited in a recent Zogby poll with 5.9%), who is likely to hurt Mr Kerry (43.3%) more than Mr Bush (45.1%). Shelley Berkley, the feisty Democratic congresswoman for Las Vegas, reckons Mr Kerry's best card is Mr Bush's support for a plan to bury America's nuclear waste in Yucca Mountain, just 100 miles north of Las Vegas. This is opposed by at least 70% of Nevadans, Democrats and Republicans alike. Mr Bush had promised his approval would be based on "sound science", but a federal appeals court on July 9th delivered a mixed verdict on the project, ruling that better safeguards were needed.

In theory, the issue should be a winner for Mr Kerry, who has for years opposed the Yucca Mountain scheme and has got an anti-Yucca plank into his party's national platform. But the Democrats' record on the issue is not that friendly: in 2002 John Edwards was among 15 Democratic senators and 102 Democratic House members who voted for the Yucca plan. As David Damore, a political scientist from the University of Nevada, points out, "The Democrats need to tie Yucca into the credibility of Bush on things like the Iraq war and health care." Not, notice, the economy: Nevada, with its booming gaming industry and no manufacturing sector to speak of, has an unemployment rate of only 4.2%, compared with the national figure of 5.6%.

That economic strength could just see Mr Bush through, even allowing for Yucca. But that still leaves two other far-harder-to-fathom factors. One is the degree to which Mr Bush's base, which includes Nevada's veterans (14.5% of the population) as well as the ranchers, has been annoyed by government expanding, not shrinking, on his watch; and whether they are prepared to take a risk on a tax-and-spend liberal from Massachusetts (as Mr Kerry is relentlessly depicted by Mr Bush's people).

The second factor will be the turnout. Four years ago, around 45% of the voting-age population cast their ballots. This time it will surely be higher, as both Democrats and Republicans strive to register every adult in sight. At the end of June the Republicans had 41% of the 882,602 registered voters and the Democrats 40%, but the Republican lead had shrunk in just a month from 10,131 to 8,513. Factor in the latest figures from the Las Vegas area, and the Democrats claim the Republican lead is down to just over 5,000. Mr Bush would be happy to win by that amount.

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It's a man's world

Aug 5th 2004
From The Economist print edition

Why there is so much macho posturing in this particular race for the White House

LET'S call it the testosterone election. John Kerry never misses a chance to surround himself with he-man veterans. George Bush looks happiest when addressing crowds of pumped-up soldiers. Mr Bush likes to spend his free time clearing brush on his Texas ranch, dressed in a sweaty T-shirt and a cowboy hat. Mr Kerry likes to spend his riding Harleys or slaughtering wildlife. Both potential leaders of the western world seem to be remarkably proud of falling off their mountain bikes.

It is all a far cry from the Clinton era. Bill Clinton was not just the first black president, as Toni Morrison dubbed him; he was also the first androgynous president, shifting between masculine and feminine roles as it suited him. With the cold war over, he was free to focus on such traditionally “female” subjects as health care and day care, and feeling everybody's pain. He was visibly uncomfortable with military men (remember that limp salute) and preferred to spend his vacations hobnobbing with metrosexuals in Martha's Vineyard. His one attempt at roughing it, a poll-tested rafting trip, proved a disaster.

The reason for the change is simple. No sooner did the planes hit the twin towers and the Pentagon than America rediscovered its butch side. The heroes of September 11th were the firefighters and policemen. The heroes of the subsequent war on terrorism have been soldiers who go abroad to hunt America's enemies. These have not all been men, to be sure. But they have shown virtues associated, from time immemorial, with manliness.

This rediscovery of manliness has been reinforced by electoral politics. To win, Mr Kerry needs more white male voters than the meagre 36% Al Gore won last time; hence his sterling attempts to seem macho. On the other side, Mr Bush's attempts to woo female voters—claiming to be a “peace president”, championing education reform and trying to bribe the older dears with prescription-drug benefits—are not going that well; so he is all the keener to hold his main electoral fortress. And both candidates are busy hunting where the white male ducks are—at NASCAR stock-car races and the like.

The politics of manliness is trickier for the Democrats than the Republicans. The Democrats have traditionally played the “Mommy Party” to the Republicans' “Daddy Party”, in Chris Matthews's phrase, more interested in nurturing children than fighting wars. The Democratic Party is the natural home of effete thespians and quiche-eating intellectuals, not to mention feminists. The Republican Party is the natural home of macho men—erstwhile wrestlers such as Dennis Hastert and Donald Rumsfeld, football stars like Jack Kemp and J.C. Watts and, of course, Arnold Schwarzenegger.

The body-builder-turned-governor recently attacked “girlie men”. He was referring to state legislators who, in his view, were too cowed by vested interests—particularly trade unions and trial lawyers—to do the decent thing and vote for his budget. Politically correct California immediately slammed the governor for homophobia and indifference to the transgendered community, among other sins. But Arnie had put his finger on a debate at the heart of this election: who are the real men and who are the girlie men?

The Republicans are determined to paint Mr Kerry as a Frenchified wimp in macho garb (the Botoxed Brahmin even opposes the death penalty, for Pierre's sake). They point to his puny climbdowns before liberal pressure groups—particularly his rapid retractions of criticisms of affirmative action to appease the teachers' unions. The Republicans have latched on to the “Kerry doctrine”—his idea that “the United States never goes to war because we want to; we only go to war because we have to.” This semi-pacifist girlyism would probably have ruled out most of America's military endeavours for the past 200 years, including its participation in the first world war.

The Democrats are equally determined to present the Republicans as poseurs—“chicken hawks” who are prepared to act tough only when their own necks are not on the chopping block. Look at Vietnam. Mr Bush, Dick Cheney and the neo-conservatives avoided combat, but Mr Kerry risked his life in the Mekong Delta. The Democrats have fastened on to Mr Bush's disastrous decision to dress up in a flight suit to declare the end of major conflict in Iraq. General Wesley Clark has him “prancing” in his flight suit. Mr Kerry talks of Mr Bush “playing dress-up”.

Electoral cross-dressing

In truth, there is a certain amount of “dressing up” on both sides. The martial theme of the Democratic convention obscured the fact that nine in ten delegates opposed the Iraq war. Yet the macho posturing is not just posturing; it also says something about both the candidates and America's state of mind.

Both Messrs Kerry and Bush are products of a preppie establishment that once put a premium on the manly virtues of athleticism and civic leadership. Mr Kerry shone at soccer and hockey at St Paul's and Yale, and once tried to fly a plane under the Golden Gate bridge. Mr Bush was a sports-loving frat boy who partied hard and regarded academics as wimps. Both men are devotees of hunting, shooting and fishing. Neither is particularly at home with Mr Clinton's metrosexual buddies.

Moreover, they are vying for leadership of a country that, for all the quibbles, is reconciled to the exercise of “hard” military power—certainly more reconciled than any of its European allies. For all the jibes about their Potemkin convention in Boston, the Democratic Party has moved to the right on defence—and it is well to the right of any of its European equivalents.

Back when the Iraq war was more popular, one neo-con, Robert Kagan, argued that “America is from Mars and Europe is from Venus”. The American half of that will remain true whoever wins the White House on November 2nd.

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Politics in Mexico

Dinosaurs on the prowl again

Aug 5th 2004 | OAXACA
From The Economist print edition

An electoral comeback for the former ruling party raises questions about the country's democracy

Get article background

ON AUGUST 1st Mexico held the latest round of this year's 14 state and local elections. Confirming a trend that started with the mid-term congressional elections in 2003, the day once again belonged not to President Vicente Fox but to his main opponents, the Institutional Revolutionary Party (PRI). In the southern state of Oaxaca, where the PRI has never lost an election, it claimed a narrow victory in the face of an unusually vigorous and united challenge from an opposition coalition. In the border city of Tijuana, the PRI's Jorge Hank Rhon, a controversial gambling tycoon, won the mayoralty by a margin of barely 1% from Mr Fox's National Action Party (PAN), which had held it for 15 years.

These results echo those of other state elections a month ago. On current trends, the PRI has a reasonable chance of returning to power at the next presidential election in 2006—a prospect that seemed unthinkable four years ago when Mr Fox ended its seven decades in power. True, the PAN retained the governorship of the small northern state of Aguascalientes. But overall, the results have been depressing for Mr Fox and his party. Voters seem to be showing their disillusion with the president's failure to accomplish his promised “transformation” of Mexico.

Significantly, the PRI's victories last weekend were a triumph for its traditionalist wing. Often characterised as the “dinosaurs”, they prefer the old patronage system of government to the political pluralism and market economics championed by the party's modernising technocrats. The traditionalists are led by the party's national president, Roberto Madrazo, whose power lies in southern states such as Oaxaca. Defeat there might have seen his leadership challenged; victory will enhance his prospects of becoming the party's presidential candidate in 2006.

Oaxaca is typical of old-style PRI politics. It is one of the poorest states in Mexico and many of its people are Indian farmers. Alberto Alonso Criollo, a political scientist at the local Vasconcelos University, says the old patronage system still works fairly smoothly in a place where the state government is one of the few sources of jobs and money. The outgoing governor, José Murat, was adept at co-opting potential opponents with jobs and contracts.

The opposition candidate, Gabino Cué, claimed that the election showed another of the PRI's darker sides. The campaign was marked by violence: last month, a man was clubbed to death by PRI supporters in front of photographers. Mr Cué claimed that the PRI tampered with ballot papers and the computer logging the returns. He refused to accept a preliminary result in which he trailed by 2.5%. He called on his supporters to take to the streets, and is also likely to challenge the result in the electoral tribunal.

If Oaxaca is part of Mexico's deep south, Tijuana, home to many *maquiladora* assembly plants, is in its dynamic north. And yet Mr Hank, the PRI victor there, is a dinosaur's dinosaur. His campaign spent a lot of money (much of it his own) on lunches and parties to bring out his vote. Mr Hank has fathered 18 children by a variety of ex-wives and mistresses; his huge fortune was partly inherited from his father, himself a PRI baron, and partly derived from a racetrack business. More worrying are claims (which he denies) of links with the drugs trade, which thrives in Tijuana. In 1988, two of his employees were convicted of murdering an editor of *Zeta*, a Tijuana weekly which has campaigned against the drug mobs.

Mr Madrazo is now likely to continue his drive to marginalise the more liberal wing of his party, headed by Elba Esther Gordillo, the teachers' union leader. She supported Mr Fox's efforts to persuade Congress to approve economic reforms against the opposition of Mr Madrazo's followers. Bulmaro Rito, the PRI's president in Oaxaca, calls Ms Gordillo a “traitor”. He says he expects her to be expelled from the party.

But a more important question for many Mexicans is what the apparent resurgence of the old PRI means for the country's still uncertain democracy. The presidential campaign is barely starting. In recent elections, the PRI has done well on a low turn-out, as voters once enthused by Mr Fox stay at home. In 2006, it will face a stronger challenge—from Andrés Manuel López Obrador, the populist mayor of Mexico city, as well as from the PAN. Mexican politics is far more competitive, and cleaner, that it was two decades ago. But the sort of animosities and controversies generated by last weekend's elections are reminiscent of a past that many had hoped they had finally left behind.

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Colombia's economy

The price of re-election

Aug 5th 2004
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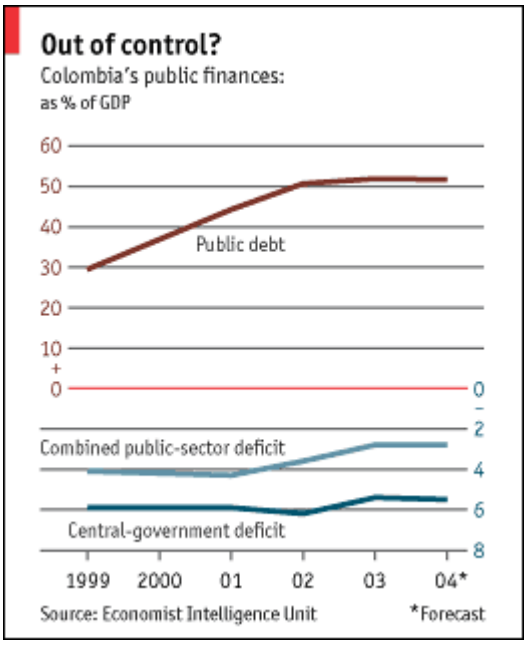
Neglecting the public finances

SINCE taking office as president two years ago, Álvaro Uribe has won the approval of most Colombians for his firm actions against guerrillas and the drug trade. Inspired by polls that give him a popularity rating of 70% or more, he is now trying to persuade the country's Congress to change the constitution to allow him to stand for a second term in 2006. But Mr Uribe has so far had little success in bringing Colombia's public finances under control. Much-needed fiscal reforms now risk losing out to the re-election drive. Without them, some investors worry whether Colombia will be able to pay its debts.

Slow growth, big fiscal deficits, an expensive security build-up and a falling currency caused the ratio of public debt to GDP to rise sharply in the late 1990s (see chart). Proportionately, Colombia is now almost as indebted as Brazil. The debt to GDP ratio has fallen slightly under Mr Uribe. Partly because security has improved, growth has picked up: the economy is likely to expand by 4% this year.



But according to a recent report by Credit Suisse First Boston (CSFB), an investment bank, even if growth continues at the current pace, the debt to GDP ratio will start rising again unless the central government posts a small primary budget surplus (ie, before interest payments). However, the government's draft budget, sent to Congress last week, contains a primary deficit of 1% of GDP.

Walter Molano of BCP Securities, an American investment bank, points out that much of the improvement in the debt ratio stems from lower interest rates in the United States and higher prices for Colombia's commodity exports. A rise in American interest rates may crimp investment and growth in Colombia.

Mr Uribe has tried to move the public finances into the black. Quixotically, he asked voters in a referendum last October to approve austerity measures that would have cut government spending by $7 billion over seven years. But he fell just short of gaining the needed 6.3m votes. In December, Congress rebuffed his proposal to extend value-added tax to exempt goods.

Now the president is trying once more. He has again sent to Congress a bill to broaden the VAT base. Two other bills would reform the state pension scheme, which will otherwise need an injection of up to $4.5 billion from taxpayers next year. The plan is to tax pensions, which would reduce payouts without requiring a change to the constitution, and to set a pension ceiling of $3,300 a month.

The trouble is that Congress will need much persuading to approve these measures. And Mr Uribe's overriding goal is the re-election bill. This has been approved once already, but it must be approved again in the new session of Congress, which began last month, if it is to become law before 2006. To secure the re-election bill, the president has begun to loosen the purse strings. He has announced plans to sell up to $9 billion in state assets, such as stakes in electricity firms, to fund additional social spending rather than to pay down debt.

In the medium-term, sorting out the public finances requires a far bolder approach. Under the 1991 constitution, half of tax revenues go straight to local government; the centre has discretion over only

10% of total spending. Mr Uribe has taken some steps to claw back transfers; to give the government more financial flexibility, a constitutional reform is needed.

Until recently, Colombia had a worthy tradition of fiscal responsibility. The government will no doubt react before default becomes a real possibility. Mr Uribe also has rich friends: the Bush administration gives Colombia $700m a year in (mainly military) aid. That alliance will survive the publication in Washington this week of an uncorroborated intelligence report from 1991 which claimed that Mr Uribe worked for the Medellín cartel of drug traffickers. At the time, the president pointed out, he was studying at Harvard University on an American visa. The State Department said it “disavowed” the allegation. But it would be ironic if Mr Uribe were to secure re-election, only to face the choice of default or swingeing austerity.

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Free speech in Canada

The purge of the shock jocks

Aug 5th 2004 | QUEBEC CITY
From The Economist print edition

But even Canadians will march for the right to be politically incorrect

THE city of Quebec has a reputation as a placid provincial capital where almost everyone retires early so as to be at their government jobs by 8am. But it has a singular predilection for “trash radio” and loudmouthed talk-show hosts. Recently, residents have been stirred out of their habitual calm by a heavy-handed official effort to reprove their listening habits. In July, some 50,000 of them—or one in ten—took to the streets in protest at the silencing of Radio CHOI-FM, home to the city's most offensive “shock jocks”.

Set up in 1997, CHOI's target audience is young men. It mixes heavy rock music at night with irreverent commentary in the mornings. A winning combination: the station claims more than 300,000 listeners and is the most popular in the area.

But for some, CHOI's jibes against, among others, the mentally ill, foreign students, women and politicians of all stripes amount to something nastier than irreverence. Among those not amused is the Canadian Radio-television and Telecommunications Commission (CRTC), a regulatory body which hands out broadcasting licences and is charged with ensuring that their recipients “safeguard, enrich and strengthen the cultural, political, social and economic fabric of Canada.” In 2002, the CRTC issued a warning to CHOI. This had no apparent effect. In mid-July the regulator announced that the station's licence would not be renewed when it expires at the end of this month.

That decision has stirred concerns across the country that free speech is in peril. In French-speaking Quebec, many complain that English-speaking puritans in Ottawa are dictating what is good for them. Many Canadians are now calling for a review of the commission's role and of broadcasting law. Members of all parties in parliament agree that both need to change in the light of the explosion of digital and satellite media. But that is as far as the consensus goes.

The Conservatives want to see the CRTC's responsibilities limited to technical fields such as frequency management, with the courts policing media output by applying hate and libel laws. Other parties, including the governing Liberals, argue that the commission is essential for the survival of Canada's cultural industries. They want to give the CRTC the power to fine errant broadcasters. As things stand, the commission has no weapons between admonishments and the death sentence of licence withdrawal.

Still, after watching 50,000 Quebeckers pile into the streets to defend CHOI, few politicians from the province are inclined to give the CRTC broader powers. Jean Charest, Quebec's Liberal premier, was quick to criticise the commission's decision after the march. No wonder: his party faces an autumn by-election in the Quebec City area. Any review of broadcasting regulation will have to await the return of the federal Parliament in early October. By then CHOI's signal may have faded from the dial. Or perhaps not: the station is studying an appeal to a federal court, and will stage another protest next week, this time on Parliament Hill in Ottawa. The battle between shock jockery and high-mindedness may be far from over.

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Paraguay

After the inferno

Aug 5th 2004 | ASUNCIÓN
From The Economist print edition

Many dead, and many questions

Reuters

Horror at the supermarket

SUPERMARKETS in Paraguay have recently started opening food courts with cheap restaurants on their premises to attract shoppers. So the Ycua Bolaños store on the outskirts of Asunción was crowded at lunchtime on August 1st, a Sunday, when fire broke out. By midweek, some 475 people were known to have died in the worst disaster that Paraguayans can remember. Specialised teams from the United States, Brazil and other countries will try to figure out what happened (a gas leak is the likeliest cause). It is already clear that blame will be spread widely.

Security guards are said to have shut the doors after the fire broke out to prevent shoplifting. One emergency exit had been welded shut, forcing rescuers to try smashing through the tempered glass walls. “That is why I consider this a criminal act,” said Rafael Fernández, a state attorney investigating the fire. The supermarket's three owners and four security guards have been arrested.

Attention will also focus on the building itself, opened only three years ago. It was “a large coffin with two little holes,” said another state attorney. Only one in five of the buildings in Paraguay is thought to comply with the country's fire codes, which are themselves outmoded. Few firms train their staff to deal with fires. At the Ycua Bolaños store, the staff did not use the fire extinguishers, according to a fire captain at the scene.

The volunteer fire brigade and the other emergency services were severely stretched. But the tragedy may confer a measure of credibility on Paraguay's leaders, who are generally regarded as self-serving and inferior to the exiled dictator, Alfredo Stroessner, who ruled for 35 years until 1989. The president, Nicanor Duarte, rushed to the fire and stayed; the ministers of health, defence and home affairs organised the rescue.

Mr Duarte, who is trying to restore stability to an indebted economy, needs all the credibility he can muster. His government has persuaded Congress to approve some tax increases in order to meet Paraguay's commitment to the IMF to run a budget surplus. Controversial reforms of public administration and state banks lie ahead. The IMF has praised Paraguay's progress and Standard & Poor's, a rating agency, declared last month that its debt was no longer in default. But Paraguayans, still suffering the after-effects of a long slump, are unimpressed. In a July poll, 42% rated Mr Duarte's performance as “OK” but 35% called it “bad” or “terrible”. After the tragedy, they may think better of their president.

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Chile

Pinochet's tarnished coin

Aug 5th 2004 | SANTIAGO
From The Economist print edition

How ill-gotten were those gains?

Get article background

AUGUSTO PINOCHET, Chile's dictator from 1973-90, may have been repressive but he did not use power for personal gain. That at least was the myth nourished by the general's supporters. It was belied by a collection of expensive properties in Chile. But the myth was finally shattered by the revelation last month, by a subcommittee of the United States Senate, that the general held $8m in accounts at Riggs Bank in Washington DC. Now Chilean courts are investigating. Having pleaded ill health to escape a trial on human-rights abuses, the dictator may at last be convicted of something—tax evasion.

The Senate investigators unearthed at least six accounts linked to the general between 1994 and 2002. His lawyer claims that these contained unspent donations towards his legal costs after his arrest in London in 1998 and subsequent legal proceedings in Chile. But the dates don't tally. It is more likely that the money came from two other sources: off-budget spending when the general was president, and kickbacks on arms sales negotiated when he was army commander (a job he held until 1998).

General Pinochet himself, now aged 88, claimed through a spokesman not to remember the origin of the Riggs money. A Chilean judge is now trying to find out where it came from. He has questioned the general's wife and children, and ordered all of Chile's stockbrokers to produce whatever records they have going back to 1973 of transactions by the general, 38 members of his family and 29 related companies. After reportedly finding that the general did not declare the Riggs accounts in his tax returns, the tax office has started its own investigation.

These are not the Pinochet family's only worries. Last week, the general's elder son, also Augusto, was arrested and spent two nights in custody on charges of receiving a stolen vehicle, using false number plates and illegal possession of a gun (his father's). This is not the first time he has been in trouble. In the early 1990s, attempts to investigate his $3m sale of a gun manufacturer to the army just before the end of his father's dictatorship prompted the only two shows of military strength to threaten Chile's newly-restored democracy. Back then, the government ordered the charges dropped rather than run what it believed was a risk to the country's stability. Today, the balance of power in Chile has changed. General Pinochet has fewer friends, and can no longer count on the army's might to protect him, let alone shield his wayward son.

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Correction: Jorge Uribe

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Owing to a proofreading error, we mistakenly said on July 15th that Jorge Uribe, Colombia's defence minister, is a relation of the country's president. He is not. Sorry.

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South Asia's floods

In all the wrong places

Aug 5th 2004 | DELHI AND DHAKA
From The Economist print edition

EPA

Human intervention could do much to mitigate the monsoon's annual tyranny

FROM the air, Bangladesh looks less like a country than one vast lake, dotted with thousands of tiny islets, clumps of trees and houses. Few boats ruffle the placid floodwaters: there is nowhere to go. Two-thirds of the dry-season land area has been under water, much of it for a month. The blessing of the monsoon always brings misery for some. This year it is a huge humanitarian disaster. It is mirrored in Nepal and in parts of India (see map), while elsewhere the worry is not of too much rain, but of too little, too late. The temptation everywhere is to blame capricious rain gods; but floods and droughts are both man-made in part.

This week saw some respite. In Bangladesh, waters have receded from much of the capital, Dhaka, half of which was submerged. People who have been sleeping at the roadside or on the corrugated iron roofs of their crude shacks are wading back through the inky, fetid, sewage-contaminated water beneath. But barely half the monsoon season has passed, and more rain is forecast for the middle of August. So relief agencies such as the Red Cross and the United Nations, which have both launched appeals for aid, insist that the worst may not be over.

Even if it is, the consequences are bad enough. More than 600 people have already been killed. Of Bangladesh's population of about 140m, 31m have been directly affected, and the Red Cross estimates that over 3m in north and central Bangladesh are marooned, homeless, or both. Crops have been destroyed, and the government estimates that 20m people will need to be fed until December. Diarrhoea has reached epidemic proportions.

The great lake of Bangladesh is in reality a network of nearly 250 rivers. This year, the biggest—the Ganges and the Brahmaputra—both reached their peak levels early, bringing the worst floods, by some reckoning, since 1998. The proximate

causes were an unusually heavy monsoon and the accelerated melting of Himalayan snows. This has also wrought havoc in Nepal, and in Assam and Bihar, states of India bordering Bangladesh, where a further 30m people have been affected.

Bangladesh is the most densely-populated large country on earth. “Too many people, in all the wrong places,” says Douglas Coutts, representative for the World Food Programme and co-ordinator in the country for the UN. Tens of millions live in the flood plain; millions, in effect, on sandbars. But moving them is not an option: Dhaka and other cities cannot cope. So the best hope is to give people better defences against the annual downpour.

Muhammad Saidur Rahman, director of the Bangladesh Disaster Preparedness Centre, a non-government group, insists that does not mean “flood prevention”. “The entire economy is based on flooding”—not just agriculture, which depends on the billions of tonnes of fertile silt deposits it leaves behind, but fishing and communications. So what is needed is to reduce the risks to the vulnerable poor and landless, by helping them raise the level of their houses, improving early-warning systems and, above all, helping them generate an income, part of which they can use to make themselves safer. Mr Coutts hopes an influx of aid will also allow “food-for-work” on repairs and expansions to dykes and embankments; silted-up rivers need dredging.

Some things, however, are beyond the control of Bangladesh and its foreign donors. Many trace the flooding to deforestation and overgrazing higher upstream, in neighbouring India, Nepal and Tibet, which hence absorb less water, increasing the flow downstream. Yet there is little regional co-operation—even on weather forecasting, let alone on serious flood and drought prevention.

India's water management is itself sadly wanting. This year, while floods have afflicted its north-east, it has been fretting about drought in the north-west. Those fears eased this week with the late onset of the monsoon there. But the rains may have come too late to save important harvests in the agriculturally rich states of Haryana and Punjab. They have also brought fresh flooding in the western state of Gujarat and in Mumbai. So far this year, floods have killed more than 850 people in the country as a whole.

The annual phenomenon of too much rain falling in the wrong places has revived talk in India of a visionary scheme, decried by environmentalists, to even things out by “interlinking” rivers across the country through canals. More sensible might be to stop encouraging the production of water-intensive crops such as rice and wheat in drought-prone regions. Inputs, such as electricity (to pump water) and fertiliser, as well as procurement prices, are subsidised. According to the International Water Management Institute, a research outfit based in Sri Lanka, India now uses 200 cubic kilometres of groundwater for irrigation, or three times the annual flow of China's Yellow River.

The grand river-linking project is probably fanciful anyway because of the co-operation it would require, in India's federal system, between states which already fight each other fiercely in the courts over their water supplies. Even so, officials in India's neighbouring countries are worried. Many gloomy forecasters see water as a likely cause of future wars. As per other sorts of conflict, South Asia is a potential battlefield they have in mind.

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China

The army flexes its muscles

Aug 5th 2004 | BEIJING AND HONG KONG
From The Economist print edition

AFP

But who commands the brain?

Get article background

AS THEY do each year, China's top military officers marked the August 1st anniversary of the founding of the People's Liberation Army (PLA) with solemn words and elaborate ceremonies in Beijing. But this year, the PLA also tried something new, staging its first military parade in Hong Kong where, since regaining sovereignty over the former British colony in 1997, Beijing has been grappling with vociferous popular demands for greater autonomy and more open elections. Despite the mixed reception it received in Hong Kong, the parade inspired proud banner-headline coverage in China's state-run media. This is only some of the considerable press coverage China's army has attracted recently.

The PLA had already begun calling attention to itself in mid-July, when it mobilised 18,000 soldiers in a week-long series of land, sea and air exercises simulating an invasion of Taiwan. Those exercises were followed on July 24th by a smaller set of drills in the same neighbourhood—off the coast of Fujian province, just across from Taiwan.

Ever simmering, tensions over Taiwan have recently heated up. Both Taiwan and the United States have matched China's manoeuvres with exercises of their own in the region. Last week, China gave warning that neither concern for its own economic development nor the risk of losing its cherished role as host of the 2008 Olympics would deter it from using force against Taiwan, if the island were to move closer to declaring independence.

With its Hong Kong parade, China clearly hoped that the stirring sight of 3,000 strutting soldiers, flanked by tanks and helicopters, would appeal to the “patriotism” of the locals and boost support for pro-Beijing candidates in the Legislative Council elections next month. The government in Beijing also used the event to butter up some of its sternest critics, inviting them to view the spectacle alongside government representatives. Not all were impressed, but in some cases the flattery appeared to pay off. Yeung Sum, chairman of Hong Kong's Democrats, praised the invitation, and the party's founder, Martin Lee, deemed it “something of a breakthrough.” Still, few doubt the display of military might was also meant as a none-too-subtle reminder that China calls the shots in Hong Kong.

Intriguing questions about who is calling the shots within the Chinese military itself are meanwhile emerging. Buried within recent official press reports are tantalising hints that the awkward power-sharing arrangement at the top of the PLA may be starting to fray.

In November 2002, Jiang Zemin yielded the top spot in the Communist Party to Hu Jintao, before yielding the state presidency—to Mr Hu as well—five months later. But Mr Jiang refused to give up his third, and perhaps most important, position of chair of the central military commission. Mr Hu was widely expected to don this third hat after a short transitional interval. Nearly two years on, however, he remains in the awkward position of commanding both the state and the party, while serving only as number two in the country's 2.3m-strong armed forces.

For his part, the 77-year old Mr Jiang has given no clear sign that he intends to step aside. One army officer says that his role has been very much hands-on rather than ceremonial. He has worked hard during the past year to move his own people into senior positions, complicating Mr Hu's efforts to do likewise. Whether due to deference for Mr Jiang, or to Mr Jiang's firm control of the media, Mr Hu has seldom been quoted on military or security matters.

But comments on these subjects from both leaders have begun to appear on the front pages of official newspapers. Readers of the tea leaves in Beijing also wonder why, at this year's Army Day celebration, the defence minister, Cao Gangchuan, failed to repeat a remark he made last year about the army answering to Mr Jiang. Mr Hu may be getting tired of waiting.

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Pakistan and al-Qaeda

Debasing the base

Aug 5th 2004 | LAHORE
From The Economist print edition

Rounding up al-Qaeda

Get article background

LONG accused of not doing enough to stamp out Islamic terrorism on its own soil, Pakistan is at last basking in glory. In a surprising burst of energy, the authorities have arrested 18 alleged al-Qaeda terrorists over the last two weeks and are claiming to have penetrated the local al-Qaeda network. The prize catch is Ahmed Khalfan Ghailani, a Tanzanian thought to have masterminded the 1998 bombings of two American embassies in East Africa. On July 25th, Mr Ghailani, whose head carried a bounty of $5m, was flushed out of a house in Gujrat, 160km (100 miles) south of the capital, Islamabad, after an eight-hour gun battle. Shortly afterwards, the government suspended more than 60 local policemen, including several officers, for negligence in detecting and monitoring the “foreigners”, who were captured with American assistance. But it will take more than this spectacular coup for Pakistan to shake off al-Qaeda's tentacles.

On July 30th, Shaukat Aziz, the finance minister nominated to be the next prime minister, narrowly escaped an assassination attempt while electioneering in the north. Nine people, including his driver and a guard, died in the blast. Mr Aziz is a former Citibank official with close connections to senior American finance and administration officials.

A previously unknown group, calling itself the Islambouli Brigades of al-Qaeda, has claimed responsibility, saying that it would continue to target pro-American government leaders in Pakistan. It is named after the leader of a group of Islamic activists who assassinated Egyptian President Anwar Sadat in 1981. This is the first time that al-Qaeda has claimed responsibility for any terrorist attack in Pakistan, but it is unlikely to be the last.

Ejaz Haider, a Pakistani expert on Islamic terrorism, says the reference to Islambouli is significant. Last year, he points out, Ayman al-Zawahiri, the Egyptian second-in-command of Osama bin Laden, instructed the faithful to kill General Pervez Musharraf. Islamic activists have since mounted two near-fatal attacks on the Pakistani president. Now Mr Aziz has been targeted. This has prompted the Pakistani media to speculate which other high profile pro-American politicians in Pakistan might be on al-Qaeda's hit list.

But this is not the only speculation surrounding the recent wave of arrests in the urban areas of Pakistan and in tribal South Waziristan, which borders Afghanistan. Official sources say that with the presidential campaign moving into high gear in America, the Bush administration has begun to lean on the Pakistani government to capture top al-Qaeda men. This coincides with warnings of impending al-Qaeda attacks in New York and Washington. The American media reported that the warnings were based on computer records belonging to one of the men recently arrested in Pakistan. But Pakistan's home minister, Faisal Hayat, remains ambiguous about this account. Meanwhile, Pakistan's indefatigable conspiracy theorists remain convinced that the American intelligence sleuths who led the Pakistani special forces to Gujrat carefully timed their operation to overlap with the Democratic National Convention in Boston.

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Mongolia

Let's get together

Aug 5th 2004 | ULAAN BAATOR
From The Economist print edition

Searching for a grand coalition, Mongolia turns to Israel

THE Mongol chieftain Temujin became Ghengis Khan in 1206 when he carried off the difficult task of uniting all the Mongol tribes. Today, Mongolia appears poised on the edge of a modern kind of coalition government. An election on June 27th was expected to return the ruling Mongolian People's Revolutionary Party (MPRP), the former communists, to power. But voters delivered a surprise—a parliament about evenly split between the left-leaning MPRP, with 36 seats, and the rival Motherland Democratic Coalition (MDC), an aggregation of several smaller and generally more free-market-oriented parties, which collectively took 34 seats. Four more seats are held by independents. So with neither major party holding a clear majority, the parliament has been deadlocked, unable to choose either a speaker or a prime minister.

This is quite a blow for the MPRP, which held 72 of the parliament's 76 seats before the election. The party's poor performance can in part be explained by the MDC's clever tactic of busing supporters from safe districts to contested ones. In this country of nomads, Mongolian law allows wide latitude on where a person votes. This may also be a backlash against the MPRP's near-total domination of the airwaves and billboards before the election. Several years of poor economic performance and high unemployment have also played against the government.

Results in two districts are still disputed. Courts are involved and the election commission has not ruled yet. A decision is expected this week but may be appealed. Nadmid Bayartsaikhan, a senior MP from the MPRP, says his party will wait for the courts to rule before agreeing to any compromise.

Both sides are now saying that the most likely outcome is some sort of “grand coalition”, with a prime minister from one party and perhaps deputy prime ministers and cabinet ministers drawn from both. Indeed, a bipartisan delegation left for Israel last week to study how such governments have been negotiated in the Knesset.

But could the two rivals work together, especially after an election in which each side has accused the other of dirty tricks? Sanjaasurengyn Oyun, the leader of the Civil Will Party, one of the smaller factions making up the MDC, says there were “fraud and irregularities on both sides”, but probably not enough to affect the outcome of the election. Mr Bayartsaikhan agrees. And Ms Oyun thinks a coalition government might offer a “historical chance” to reduce polarisation in Mongolian politics.

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Kazakhstan

Own goal

Aug 5th 2004 | ALMATY
From The Economist print edition

A setback for the opposition

Reuters

Abilov is out of circulation

BEFORE you accuse a public figure of corruption, make sure you have some hard facts you can produce in court. By forgetting this elementary rule, Bulat Abilov, a charismatic opposition leader, has given the government a golden opportunity to marginalise him, dealing an eve-of-election blow to his party, Ak Zhol (Bright Path). The moderate approach to reform adopted by Ak Zhol is thought to have become increasingly attractive to Kazakhstan's voters.

In May, Mr Abilov accused Mukhtar Tinikeev of having paid $100,000 to obtain a seat in the Mazhilis, the lower house of parliament. The indignant Mr Tinikeev sued. The case went to trial with lightning speed, and last week a court in Almaty convicted Mr Abilov of slander, giving him an 18-month suspended sentence. As a result, he will not be able to take part in either the parliamentary election next month or the presidential one in January 2006.

Alikhan Baimenov, another Ak Zhol co-chairman, acknowledges that the party has been weakened, but puts a positive spin on the affair. “It also gives us the opportunity to show the weakness of the system,” he says. He argues that the swift sentencing of Mr Abilov stands in stark contrast to the many indications of corruption that have never even been investigated, such as alleged foreign bank accounts of senior government officials. Ak Zhol, founded by former government officials on a platform of political and economic reform, has been crusading against corruption. The motto at the party's summit last week was: “Enough with the bribes, vote for Ak Zhol.”

To bolster its position, Ak Zhol has signed an electoral pact with the other two opposition parties: Democratic Choice of Kazakhstan and the Communist Party. They intend to meet in early September to assess how the campaign is going. If by then they have faced too much government obstruction, they may boycott the elections altogether.

The parliamentary elections, scheduled for September 19th, will test whether Kazakhstan is ready to extend reform from the economic to the political sphere. President Nursultan Nazarbaev has been ruling the country since before independence from the Soviet Union. So far, polls have not been free and fair, and there are few independent media. Over the past few months, however, the electoral system has been improved, and Mr Nazarbaev has promised parliament greater powers. Shortly before Mr Abilov's conviction, Altynbek Sarsenbaev, a third Ak Zhol co-chairman, was appointed as information minister. But if the opposition is pushed to stay out of the election, Mr Nazarbaev will once again come out the clear winner.

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Economist.com WORLD ASIA

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About sponsorship

Thailand

The Lord will provide

Aug 5th 2004 | CHIANG RAI
From The Economist print edition

Some aid groups bring relief—and Jesus—to hill-tribes

OUTSIDE the town of Chiang Rai in northern Thailand, a series of small villages inhabited by hill-tribes, indigenous ethnic minorities, stretches across the thickly forested hills. One village, home to the Akha tribe, looks little different from the others—a small clutch of thatched roof huts, barely clinging to a steep cliff. But one structure in town stands out: a relatively new church, fashioned of brick and tile, equipped with a modern sound system, and funded by a Taiwanese Christian group which supports the conversion of the Akha to the ways of Jesus. When your correspondent visited recently, the entire village was inside the church, singing Christian hymns with enthusiasm.

Missionaries are hardly new to northern Thailand—the first ones came more than a century ago. But local researchers say the number of religious aid groups operating near Chiang Rai has grown significantly in the past five years, as Western and Asian churches have increased funding for these organisations. The White House has now got in on the act. In December 2002, President Bush created a centre for faith-based initiatives within the United States Agency for International Development, America's aid organisation. The Department of Labour has since given $700,000 to International Justice Mission, a religious group that combats child trafficking in northern Thailand. The group also promotes “advancing [the] Kingdom” of Christ.

Detractors in Chiang Rai say that such groups are undermining traditional culture, using funds to remove hill-tribe children from villages to educate them in parochial schools, and creating tensions within communities. One hill-tribe researcher says Akha villages where half the population has converted are now seeing intra-community fights between animists and Christians. Meanwhile, Matthew McDaniel, a strident American Akha activist—he drives a lorry with “Missionaries Suck” signs on the side and calls local faith-based groups “superpimps” for using the plight of the Akha to win foreign funding for themselves—says aid workers should remain secular and give their money directly to hill-tribe communities, helping preserve traditional family structures.

The solution, however, is not so simple. Urbanisation and economic modernisation in northern Thailand are changing hill-tribe institutions anyway, destroying traditional structures. Few secular NGOs operate in northern Thailand, because they view neighbouring Laos and Cambodia as more needy, and the Thai government generally ignores ethnic minorities. So without faith-based groups, which care for orphans who lost their parents to AIDS, to provide schooling in remote areas and offer other services, many hill-tribes might be even worse off. What is more, faith-based groups tend to have staying power—their staffers remain in northern Thailand for decades—and may actually help keep some local rituals alive. Some local Christian organisations, in fact, take more pride than secular groups in ensuring that the Akha retain their language and family ties. They have started weekend camps where Akha children who attend Thai schools can learn traditional ceremonies, songs and grammar.

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Arab foreign policy

Always prickly, sometimes paranoid, occasionally pragmatic

Aug 5th 2004 | CAIRO
From The Economist print edition

Why it is so hard for Arabs to act together to solve the region's manifold problems

SUSPICION of America runs deep in the Arab world. At a Cairo dinner party this week, a sophisticated Egyptian businessman asks why there is so much noise about the humanitarian crisis in western Sudan. “What is it America wants from Darfur? Is there oil there? Uranium?” On the al-Jazeera satellite TV channel, the Arab world's most popular, an Iraqi commentator suggests that America was behind last week's bombings of Iraqi churches “because they want to taint the noble Iraqi resistance with the crime and create chaos to continue the occupation.”

Whether such views are paranoid or, perhaps, cynically savvy, they carry influence. Many Arab governments would sincerely like to help heal festering regional sores such as the mayhem in Iraq and the misery in Palestine and Darfur. Not only would this reduce the risk of infection, it would also improve the strained relations with the superpower. But popular distrust of western, and particularly American, motives keeps getting in the way.

Take the case of Iraq. After meetings last week with Colin Powell, the American secretary of state, and with Iyad Allawi, the Iraqi prime minister, Saudi Arabia's foreign minister, Prince Saud al-Faisal, suggested that several Arab and Muslim countries were prepared to send an armed force to help police Iraq. By lending Islamic legitimacy to Iraq's transitional government, such a move could do much to quell the lingering hostility to it, both within Iraq and the surrounding region. This would please the beleaguered Mr Allawi and the equally beleaguered American-led coalition backing him. Government sources in Baghdad were quick to announce that six predominantly Muslim countries (Malaysia, Morocco, Nigeria, Pakistan, Tunisia and Yemen) had agreed to send troops, with Egypt offering technical support and oil-rich Gulf states some $2 billion to pay for the operation.

Yet scarcely was Mr Powell's plane out of Saudi skies before the caveats blew in. The Islamic force was meant to replace the current coalition, not complement it, elaborated Prince Saud, and even then only at the express request of an Iraqi government that had “the full and clear support of the Iraqi people”. Rushing to Saudi Arabia with more cold water, Amr Moussa, secretary-general of the Arab League, said that it was simply “not possible” for Arab or Muslim intervention forces to operate under anything but a UN command. Yemen flatly denied that it had any intention of sending soldiers to Iraq.

To find reasons for the hasty retreat, look no further than the opinion pages in the Arab press. The troops offer was not really Saudi, said the popular London-based daily, *Al-Quds al-Arabi*, “but rather American orders clothed in Saudi garb so as to be more acceptable to other Muslim and Arab countries who are keen to please the American administration and fend off its official pressure to introduce reforms”. Talal Salman, editor of the Beirut daily, *Al-Safir*, commented acidly: “Washington has discovered that there are ‘unemployed' Arab armies that have no duties, save to subdue Arab masses, and that those Arab armies could be employed in saving the United States from the Iraqi quagmire.”

The Arab response to the Darfur crisis has been similarly fork-tongued. Countries such as Saudi Arabia and Egypt have dispatched planeloads of aid to the stricken region but also lobbied to ensure that the UN Security Council refrained from threatening sanctions against the Sudanese regime, which is largely responsible for creating the mess. Sudan's Arab neighbours do have an interest in supporting the government in Khartoum. They do not want Iraq-style chaos next door that could ensue if it falls. But they are also exposed to public pressure to prevent another western intrusion into Arab land.

Sudan's interior minister, General Abd al-Rahim Hussein, accuses America of fomenting unrest in Darfur “just as in Afghanistan and Iraq”. Another minister suggests America is acting under “Zionist pressure” to intervene. Such views echo widely. The West, insists Egypt's Muslim Brotherhood, is exaggerating the humanitarian crisis to find a pretext for invasion. A commentator in Syria's state-owned daily, *Al-Thawra*, says that while America sheds “crocodile tears”, its real plan is to “swallow” another chunk of Arab real estate.

Peace-minded Arab governments have been similarly hamstrung over recent travails in Palestine. Egypt and Jordan, both American allies with strong ties to the Palestinians, have long since quietly concluded that Yasser Arafat has become an obstacle to progress. But Israel's impounding of the Palestinian leader, along with America's support for this and other harsh policies, has made it harder for his old friends publicly to tell him to step aside. This week Jordan's King Abdullah got embroiled in rows among fellow Arabs after accusing the Palestinians' leadership of being weak and divided (see article).

This is not to say that Arab governments have always failed to help resolve such problems, when they can do so discreetly. Egypt is again hosting a round of closed talks to patch up bitter disagreements between Palestinian factions, and has committed itself to helping secure Gaza in the event of an Israeli withdrawal. It has supported France's deployment of troops along the Chad-Sudan border, and itself sent advisers to join the small Darfur monitoring force run by the African Union. The Arab League has also taken a belated interest in Darfur, scheduling an emergency meeting of Arab foreign ministers to discuss the issue. Libya has helped speed relief supplies to the region and now appears to have agreed to sponsor peace talks between the Darfur rebels and the Sudanese government.

Fellow Arabs have also grown more solicitous for the welfare of Iraq. The increasingly indiscriminate savagery of the Iraqi insurgents and their increasingly radical Islamist overtones appear to have persuaded many non-Iraqi Arabs of the need to tame them. However faint-hearted, the Saudi troops initiative was a sign of this new urgency. Mr Allawi also got a warm reception during a recent tour of eight Arab capitals. Kuwait and Iraq have ended a 14-year hiatus in diplomatic relations. Even Syria, which has long been accused of turning a blind eye to the infiltration of *jihadis* from its territory, has promised to seal its borders better, and perhaps even to expand the capacity of pipelines taking Iraqi oil to its Mediterranean ports.

Obviously, all the region's problems could be dealt with more effectively if there were more trust in the atmosphere. And what would it take to create it? More western sensitivity to Arab concerns and a less blinkered Arab prickliness about the sacredness of sovereignty in countries with vicious regimes—and about the nobility of “resistance” to any government that is friendly to the United States.

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Palestine

Who's in charge?

Aug 5th 2004 | RAMALLAH
From The Economist print edition

It is not yet clear how the current strife among Palestinians will end

"YASSER ARAFAT is sitting on the corpses and destruction of Palestinians at a time when they desperately need a new mentality." Thus spake Mohammed Dahlan, a former head of security for the Palestinian Authority (PA) and the man many believe was behind a recent wave of violent Palestinian protests against Mr Arafat's autocratic rule in the Israeli-occupied Gaza strip. Talking to Arab editors in Jordan, he did not deny the charge. "We decided to take action. What happened in Gaza reflects our demand for reforms," he said. And he promised more of the same if reform fails to come about.

What is Mr Dahlan up to? For Mr Arafat and many top PA people in Ramallah, the Palestinians' capital on the West Bank, the answer is plain. In collusion with "foreign powers" (read Israel, the United States and Egypt), Mr Dahlan is planning to set up a new and more malleable Palestinian administration in Gaza ahead of Israel's withdrawal from the strip, maybe next year. In other words, say Mr Arafat and his loyalists, Mr Dahlan is plotting a coup.

Other Palestinians take a less conspiratorial view. They say Mr Dahlan is flexing the muscles of his supporters in Gaza in order to impose change on the Palestinian leader without trying to oust him or destroy the PA itself. He has scored some success, they admit. Last month, Mr Arafat agreed to transfer control over some Palestinian police forces to his prime minister, Ahmed Qurei.

But not all that much has changed—yet. Mr Arafat is still loth to give up control of all the forces (as those "foreign powers" demand) or (as Mr Dahlan has specifically demanded) to rescind his recent appointments of loyalist commanders to head them. Nor has Mr Dahlan been able to spread his "reformist wing" beyond his base in Gaza. There has been more violence between Palestinian factions in the West Bank, with police stations torched in Jenin and foreigners briefly abducted in Nablus. Such incidents have little to do with reform but much to do with the collapse of the PA as a source of jobs and political patronage. Most of the recent demonstrations have been by Palestinians coming to praise Mr Arafat rather than bury him.

The upshot is a snarling fight between Gazans and West Bankers, mainly pitting "young guard" reformers like Mr Dahlan against the "old guard" survivors around Mr Arafat. The result is a dangerous vacuum. When, on August 2nd, gunmen killed two Palestinians in their beds in a Gaza hospital as alleged collaborators with Israel, it was unclear whether the perpetrators were Mr Dahlan's men or Mr Arafat's. Neither, say Palestinians. The killers belonged to the Islamic Resistance Movement, better known as Hamas, the main Palestinian rival of both Mr Arafat and Mr Dahlan. If neither of the pair can keep law and order in the areas supposedly under Palestinian administration, Hamas and other Islamists will certainly seek to impose their own.

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Morocco

The slow march to reform

Aug 5th 2004 | RABAT
From The Economist print edition

The king is seeking to embrace moderate Islamists

CARRYING banners reading “Torture-Free Zone”, Morocco's indefatigable human-rights campaigners notched up a modest first last week by holding a demonstration near the headquarters of the country's Directorate for the Surveillance of the Territory, the secret service better known as the DST. Fifteen years ago, the organisers would probably have found themselves inside the interrogation centre they were protesting about. Now there was an element of theatre, as plainclothes agents noted down the details of anyone attempting to approach the building itself.

Morocco's three main independent human-rights outfits, fired up by a recent Amnesty International report which said that suspected Islamist radicals had been tortured at the centre, are demanding parliamentary oversight of the DST. That may be optimistic: despite the country's much-vaunted progress in such areas as press freedom and the legal status of women, parliament still oversees little of anything.

AP

King Mohammed rides high

Under the late King Hassan, it was just another arena for his right-hand man, Driss Basri, the interior minister from 1979 to 1999, to pull strings and influence people. Tiny parties with obscure sources of cash sprouted up like mushrooms before elections. Docile politicians knew they were in parliament to repay favours: real power rested with the *Makhzen* (literally, the storehouse), as the clique in the royal palace has long been called.

Under Hassan's son, the 40-year-old King Mohammed VI, the bad old days of authoritarian abuses and political corruption are officially said to be over. The word “democratic” cropped up no fewer than 18 times when the king addressed his nation on July 30th, to mark his first five years on the throne. But there was no hint of a bigger role for parliament. The king implied, not for the first time, that the political parties were not yet up to the mark. The palace, he said, would continue to define policy, merely letting parliament and the parties decide how to implement it.

But at least the king seems intent on improving human rights. The text of a draft law outlawing torture has recently been released. The palace-appointed prime minister, Driss Jettou, has promised an investigation into human-rights abuses first reported in the local press 18 months ago. High-profile prosecutions of former local-government officials are a sign that there will no longer be official tolerance of the kind of corruption that was so blatant in Casablanca, where funds allocated for slum clearance and other projects in the 1990s were diverted into private pockets.

Without the safety valves of emigration to Europe, which is getting harder, and families' willingness to support those out of work, Morocco would look far less stable. Good rainfall and harvests in the last two years have spurred economic growth without creating enough jobs for the young in the towns. Yet the drift to the cities from the backward countryside is unlikely to slow. Tourism was just recovering from its slump since September 11th 2001 when it was hit by the terrorist bombings last year in Casablanca.

The main beneficiary of this dissatisfaction is the Justice and Development Party (better known by its French initials, PJD), which is Islamist. In the last general election, in September 2002, it surged to become the third largest party, and now heads parliament's opposition. With an anti-corruption message similar to that of its namesake which governs Turkey, the PJD officially won 13% of votes cast, but the

true figure was probably higher.

So far it has posed no threat to the palace. Indeed, it was the king's man, Mr Basri, who had helped bolster it as a counter to leftists on university campuses. It shares a number of aims with the palace—for instance, the need to professionalise the civil service. As western and Arab governments alike want to build bridges with non-violent Islamists, the PJD is being groomed to take part in government.

Since the Casablanca bombings, when 12 suicide-bombers (most of them from a nearby shanty-town) and 33 innocents died, the PJD's leadership has distanced itself from the rhetoric of the party's more socially conservative wing. Last autumn, in the kind of behind-the-scenes deal that still characterises Moroccan politics, a PJD candidate was allowed to win office as mayor of Meknes, Morocco's seventh city, giving the party a chance to show what it can do for municipal services.

The king and his advisers believe legislative elections in 2007 may mark another step towards democratic freedom by producing a more coherent governing majority to replace the current unwieldy six-party coalition under Mr Jettou. If and when the palace does decide to cede more power to the nation's elected representatives, the PJD is likely to gain ground.

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Iraq's Christians

Less safe than before?

Aug 5th 2004 | BAGHDAD
From The Economist print edition

Why Sunni zealots are gunning for Iraq's beleaguered Christians

Reuters

He may not be making it safer

THE car-bombs and mortars that interrupted services in five Iraqi churches and killed a dozen people on August 1st confirm rumours that Christian shrines are now on the insurgents' lengthening hit-list. Many Christians had already stopped going to church for fear of attack. Ironically, it was under Saddam Hussein that the Arab world's best-known Christian prospered in the person of his deputy prime minister, Tariq Aziz, and that Easter services were broadcast on state television. But since Mr Hussein fell, Iraq's Christians, fearful of being equated with their invading co-religionists, have lowered their profile. Boutique-owners took down their church calendars; officials tucked their crucifixes inside their shirts; some Christian women now go veiled.

Bombing places of worship is nothing new in Iraq. Insurgents have struck Sunni and, more often, Shia mosques, killing some 250 worshippers in just three attacks against the holiest Shia shrines.

The more chauvinist of Iraq's Sunni minority think Shias and Christians have much in common. Salafi Muslims, who forsake Islam's more tolerant tradition to apply the literal word of the Koran, are battling to cleanse Iraq of “idol-worshippers”, just as earlier generations cleansed Saudi Arabia. In the Sunni triangle around Baghdad, fanatics have defaced Shia icons of Ali, the Prophet Muhammad's son-in-law and progenitor of Shia Islam, and seek to carve out “Shia-free” zones by killing Shia drivers. In Mosul, their leaflets warn Christians to convert or die. Both Shias and Christians are accused of promoting the crusader overthrow of a Sunni leader.

But, unlike Shias, Christians have no militia. Estimated at 1.4m souls in a census in 1987, their numbers have dropped to between 600,000 and 1m, some 3% of Iraq's total. Many have already sent their families to safer havens in Syria and Jordan. In the wake of the bombings, more are said to have fled to the secular hills of northern Kurdistan. A sad precedent was the series of attacks in 1948 on Baghdad's synagogues, which prompted the flight of most of the country's 200,000 Jews.

But the Christians (with the possible exception of the Assyrian community) do not yet believe they are condemned to eternal persecution in Iraq. Most still view the attacks on the churches as part of a *jihadi* assault on Iraqi society in general. Many think the zealots recently attacked the owners of liquor stores not because they were Christian but because they want to kill all such purveyors of iniquity, whatever their religion. The higher percentage of Christians being kidnapped may, they hope, be simply because Christians are on average richer.

Yet the *jihadis* may have wider sympathy for their attacks on churches and Christians. Some of the survivors say that locals jeered them, cheering their come-uppance for helping the occupier. The American intervention may indeed have made the Christians' lot worse than it was before.

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Nigeria

Reforming the nearly unreformable

Aug 5th 2004 | ABUJA
From The Economist print edition

A vicious circle in which virtue cannot easily be rewarded

Get article background

THE seventh floor of Nigeria's ministry of finance in the capital, Abuja, is a far cry from the building's entrance, where security guards sidle up to visitors and ask brazenly for “sweet bread” before agreeing to open the gates. Upstairs, well-suited Nigerians and foreign finance executives sit in a cushy waiting room where a television beams the latest global economic news. But the minister's special advisers are evidently too busy to see anyone.

Nigeria's president, Olusegun Obasanjo, is working his economic team hard. Now in his second and constitutionally final term as an elected president, the former military ruler (as a general he ran Nigeria from 1976-79) is trying to achieve the unthinkable before he leaves office: a real reform of the economy.

Nigeria is the world's second-most corrupt country (after Bangladesh), according to Transparency International, a Berlin-based anti-sleaze watchdog. Its hefty oil revenues, which make up around 90% of its foreign-currency earnings, are still consistently squandered by its 36 state governments and 774 local governments, all thriving on long-entrenched systems of patronage, with funds used to buy off political opponents or to arm gangs of thugs if cash won't persuade them to shut up.

Inflation is running at nearly 20%, with domestic prices of fuel creeping up, even though Nigeria is one of the world's largest oil producers. The country's central bank spends about $200m a week to keep the local currency, the naira, stable; banks acting as trading houses get fat on trading treasury bills and “round-tripping” between the naira's official and black market rates. Meanwhile, two-thirds of the country's 124m people still live on less than a dollar a day. Poverty and anger deepen the country's religious, ethnic and communal divisions. In May, hundreds of people were killed in sectarian massacres.

After five years in office as a civilian, Mr Obasanjo is finally cajoling a new team of technocrats, many of them educated at smart American colleges, into starting to attack the malaise, partly with a view to softening up creditors for a much-desired write-off of Nigeria's international debt of some $30 billion. On July 6th the central bank's new governor, Charles Soludo, dropped a bombshell by telling the country's 89 bank directors that Nigerian parastatals (bodies such as those that run the notorious national electricity and telecoms companies) would have to start withdrawing their public-sector deposits and that the minimum capital base of banks would have to go up by a factor of 12—or small banks would have to face mergers. This should purge some of the rot from the system and force financial institutions to scrutinise bad loans, which are thought to be about 20% of the total.

The finance minister, Mrs Ngozi Okonjo-Iweala, a former World Bank official, is also trying to stem government profligacy. She wants a fiscal-responsibility act to standardise accounting practices and institute independent audits to see where the three tiers of government (federal, state and local) are spending their money and to stop the graft. In some cases this involves local governments changing up to 90% of their budget allocation into foreign currency, if it hasn't already been swallowed up by the recurrent costs of paying a bloated civil service.

In particular, Mrs Iweala wants to create a special holding account for excess oil revenue: Nigeria's current budget is based on an oil price of $25 a barrel, whereas the latest price is nearly $43. She wants to set aside the surplus to keep government spending stable and to tap into the fund to build new infrastructure. Penalties for abuse would be imprisonment, even for an errant minister. That would be a dramatic break with tradition.

The new IMF head, Rodrigo Rato, who visited Nigeria this week, enthused about the reform proposals, but domestic vested interests are less keen. Reformers have had death threats from members of Mr Obasanjo's own People's Democratic Party (PDP), which controls 28 of the states and the vast majority of the national assembly's seats, whose occupants approved the president's nomination as their party's candidate in 1999, ahead of other retired generals, after 15 years of military rule. “There is going to be a struggle to get these reforms through,” says a western diplomat. The reformers, he says, are “just a small group, isolated at the federal level”.

Many of the banks due to be cleared out have strong connections to top PDP people jostling for position ahead of elections due in 2007. Even if the minister of finance succeeds in getting her law through the assembly, the state governors' behaviour will not change overnight. Many mortgaged themselves to political godfathers who got them into power in return for favours or state contracts.

Stymied by bunkering

Reforming the oil sector will also be hard as long as armed gangs, often backed by state politicians, are responsible for the theft or “bunkering” of perhaps 7% of the 2.5m barrels a day of crude oil that flows out of wells and through pipelines in the impoverished Niger delta.

With the illicit proceeds, weapons can be bought and whole constituencies held hostage. Elections in 1999 were heralded as the start of a new era. But last year Mr Obasanjo's re-election was somewhat marred by rigging and voter intimidation.

Given how easy the criminals and corrupt politicians find it to bribe judges, it is hardly surprising that efforts to convict some of the hundreds of offenders arrested by the country's anti-corruption agencies have failed. The sweet bread is still, for many Nigerians, irresistible.

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The European Union

After Babel, a new common tongue

Aug 5th 2004 | RIGA
From The Economist print edition

Corbis

It turns out to be English

IN THE 17th century, educated people across central Europe could still communicate with each other in Latin. By the mid-19th century, the handiest language for a traveller through *Mitteleuropa* was the German spoken by the Habsburg monarchs who reigned over Hungarians, Czechs and many others. A little more than 100 years later, the dominant tongue was Russian.

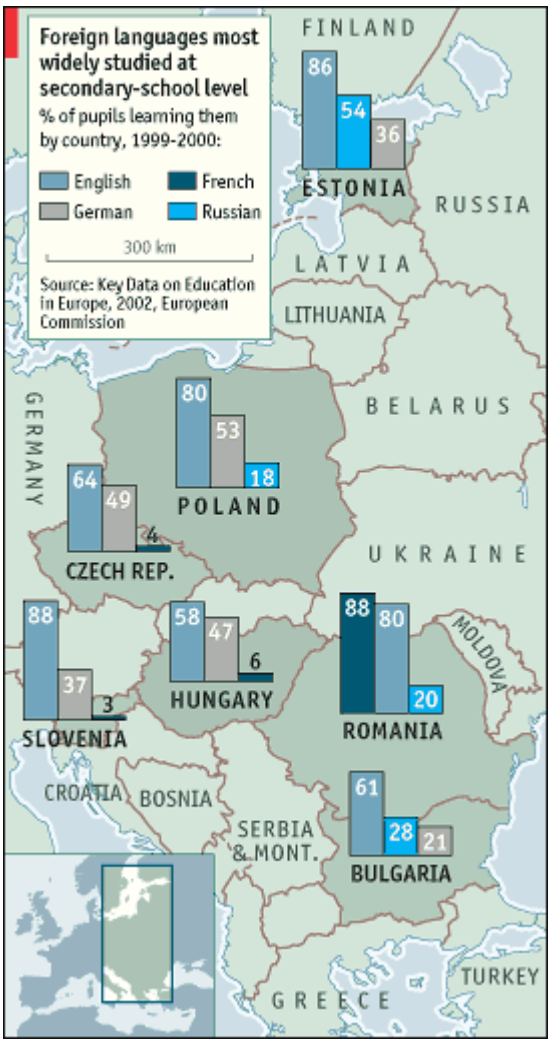
Now the region's new language of choice for the 21st century is percolating upwards through the education system, and downwards from the business and political elite. It will be English, studied by three out of four secondary-school pupils from the Baltic to the Balkans.

Most central European countries have just joined, or are waiting to join, the European Union, and their accession is already reinforcing the dominance of English as a language for the EU as a whole. In central Europe, as in much of the world, knowledge of English has become a basic skill of modern life comparable with the ability to drive a car or use a personal computer.

What has happened to the other main languages? A majority of central Europeans have eschewed Russian as firmly as they have rejected the communist ideology which was once articulated in that tongue. Russian remains the second-most-studied foreign language in the Baltic countries, where there are large minorities of native Russian speakers and a thriving Russophone culture with them. But in Poland and Slovakia it has fallen to third place, and in Hungarian and Czech schools it is scarcely studied at all. That said, Russian still serves as a common language among older central Europeans schooled in communist times—including, ironically, the politicians whose generation helped drive out communism. Their arrival in the European Parliament has brought the sound of Russian small-talk into its corridors and tea-rooms.

The limited enthusiasm for German in central Europe has been much more surprising. Even in the communist era, it was taught at least as widely as English, being the language of a “fraternal” country, East Germany. In the post-communist era, Germany has been central Europe's biggest export market, and a huge investor in the region. Yet only in the Czech Republic, Hungary and Slovakia does the proportion of secondary-school pupils studying German come anywhere close to the proportion studying English; and nowhere in the region is German the top choice.

German has languished partly because Germany has been shy about promoting its language and culture in a region ravaged by Hitler's war. No such shyness has affected France. Its cultural diplomacy in the region has been vigorous and generous. Handsome French cultural centres ornament the capitals of the region: the newest of them will open in Riga, the Latvian capital, in October. But admiration for France's culture does not translate into widespread use of its language. Only in Romania—whose own vernacular is of Latin origin—does it exceed English in popularity.



The choice of English has been made easier by the demands of foreign investors. The first to move east were the most international European companies, which tended to use English as their international working language regardless of their base. The biggest foreign direct investor within central Europe for most of the past decade, Siemens AG of Germany, an engineering and telecoms firm, made English its main “corporate language” in 1998. “German companies are very pragmatic,” confirms Bernhard Welschke, head of European policy at the Federation of German Industry. They value a single language for business, he says, even if it is not their own.

If there is one German sector which begs to differ, it may be the entertainment industry, whose exports are limited by the international preference for English-language products. About 200m music CDs are sold each year within Germany, for example; but the country's most successful international act, Rammstein, a heavy-metal group, has sold only 6m CDs outside Germany in its ten-year history. “We are being left behind,” complains Björn Akstinat, director of the German Music Export Office, an industry association. He believes central Europe could be a growth market for German culture, and that the German government should try harder in its cultural diplomacy. Even now some non-Teutonic bands sing in German, says Mr Akstinat, pointing to Ich Troje, which represented Poland in last year's Eurovision song contest.

The rise of English as a lingua franca will not necessarily do much to diminish arguments over national languages within or between countries, in places like the Balkans or the Baltic states. Such arguments tend to be about the division of political power between rival communities, rather than about language as such. It may, on the other hand, have a big impact on the institutions of the European Union, and even on European integration. The EU recognises an official language for every country, and translates all

main public documents into all 20 of those languages. But civil servants and committees within the EU's institutions use three main working languages: English, French and German. French has long been fighting a losing battle against English for “market share” among the three, with German far behind. The arrival of more countries favouring English will threaten to render French almost as marginal as German.

An increased use of English within the EU institutions will mean an increased use of it in the ministries of member states, where officials spend much of their time working on EU-related matters. Jean-François Deniau, of the Académie Française, a linguistic watchdog, told *Le Figaro* newspaper that English had conquered even the treasury directorate of the French finance ministry, which he called “the heart, the bastion, the stronghold of French power”. It now circulates drafts of new regulations in English “because they will be discussed in English in Brussels”.

One big question now is whether the generalised use of English as a first or second language will accelerate the political integration of the EU. The spread of English will lower the language barrier which has, arguably, obstructed pan-European political debate. It will open the way to the formation of pan-European public opinion, and to politicians with pan-European appeal. But there have been empires, like the Soviet one, which had common languages and still fell apart. A language can help a good political system work better, but it cannot rescue a bad one.

Reuters

Among the Balts, Russian resists

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Britain's language gap

Oh là là!

Aug 5th 2004
From The Economist print edition

No funny languages please, we're British

TO COMPLAIN that Britons, and most other English-speakers, perform dismally at foreign languages—especially when compared with continental Europeans—is probably to state the obvious. The startling news is that the chasm may be widening fast, as Britain's linguistic duds see less need for the gift of tongues and almost everybody else sees more.

Indeed, the gap has been growing for a while. According to Grant Thornton, a business consultancy, as many as 44% of British executives were prepared, back in 1992, to make the (possibly optimistic) claim they could negotiate in a foreign language. A decade later, the figure had dropped to 28%.

And at least in the short term, ignorance will probably deepen. When British schools reopen next month, they will no longer be obliged to teach at least one language to children of 14 and over. Before reaching that age, children will, as before, face three years of language learning—but on present trends, the vast majority will give up the struggle as soon as they have the chance.

Does that mean that Britain's Department for Education and Skills has given up the struggle too? Not at all, it insists. There will be a new focus on encouraging children to learn languages when they are most receptive, between the ages of seven and 11.

There is some sense in that; at seven, children can mimic the sound of foreign languages easily, and they are easily amused by songs, games and visual effects. Linda Parker from the Association for Language Learning, a teachers' lobby, says there have been “very encouraging results” from the effort to make tiny Brits chant in French or yodel along in German. The idea is that if children are introduced to languages at a tender age, they will be more likely to pursue them as teenagers and beyond.

Already, the optimists insist, there is a rise in the number of British university students opting for courses which are partly linguistic—French and marketing, for example. Pure language degrees have been declining in popularity.

But it may be that ignorance has passed the point of no return. A recruitment firm, Office Angels, recently polled 1,500 British workers and found that 20% thought “*Quelle heure est-il*?” meant “What day of the week is it?”

In a British game of linguistic put-downs, mind you, any number can play. A spokesperson for Office Angels felt unable, when invited, to offer any comment on what the word “angel” means to hundreds of millions of Muslims, Christians and Jews who believe in invisible heavenly powers. “For us, an angel is just an ideal person to have in the office.” Partly right, as a struggling British teacher might say.

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Czech Republic

A midsummer night's bargain

Aug 5th 2004 | PRAGUE
From The Economist print edition

An ingenious satire on supermarkets has Czechs chuckling

IT MAY well be the funniest European film of the year. It was certainly the most successful spoof in Czech history. Two film students persuaded advertising and public-relations agencies, graphic designers, printers, jingle-writers, even crowd-psychologists from the Czech army to help them devise a marketing campaign announcing the biggest and cheapest hypermarket ever seen in Prague, a city already besotted with supermarket shopping.

Lured by flyers and posters, more than a thousand would-be shoppers turned up for the grand suburban opening—only to find that the campaign was a hoax, and the store a fake. As they gradually realised, they were queuing in front of a canvas façade stretched across scaffolding in a bare field.

The practical joke, which took place last summer, was so vast and baffling as to verge on surrealism. It made the headlines for days and fed debates about whether the Czechs' post-communist fascination with consumerism was undermining society, and whether other publicity campaigns—notably the one under way at the time in favour of European Union membership—could be equally misleading.

But for the two authors of the charade, Filip Remunda and Vit Klusak, it was only the beginning. For them, the finished product was the documentary film which they were making as they went along, showing how the hoax was put together. Called “Cesky Sen”, or “The Czech Dream”, which was also the name of the bogus hypermarket, the film is now showing in Prague.

It is all the funnier because Messrs Remunda and Klusak are not driven by any obvious desire to humiliate the advertising industry or the shopping public, even if they end up doing both. They are moved more by simple curiosity as to whether such a huge spoof can possibly succeed, and, if so, what will follow when the truth is told. The answer is that their hapless shoppers become the stars of the film. In some countries, bamboozled bargain-hunters, abandoned in an obscure field as part of a giant practical joke, would probably turn furiously on their tormentors. But when the “Czech Dream” is punctured, the Czech sense of tolerance and humour prevails instead. The anger of the crowd gives way quickly to a public debate about where the main responsibility for the hoax should lie—with those who devised it, or with those who allow themselves to be taken in by it.

Amazingly, a large number seem ready to put the blame on themselves, and, as if to show that they bear the retail trade no hard feelings, they wander off peacefully down the road to do their shopping at a nearby Tesco instead.

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Kosovo and Macedonia

Gunning for local power

Aug 5th 2004 | KAMENICA, KOSOVO
From The Economist print edition

Armed Albanians oppose devolution in Kosovo but want it in Macedonia

Get article background

AT LEAST from a distance, the scene at a playground on Kosovo's south-eastern edge looks like a soft, fuzzy advertisement for peacekeepers who can be tender as well as tough. A group of well-armed sergeants from America's National Guard—some white, some black, all from the deep South—look on while children kick a football round a schoolyard that is used by both of Kosovo's peoples, Albanian and Serb. In part because NATO's soldiers have done better here than in other places, the town of Kamenica was one of the few mixed areas that was spared from an orgy of anti-Serb violence last March.

But look harder: even here, Serb and Albanian children do not play together regularly; they use the playground at different times. Moreover, each community has its own schooling system, in its own language, and there is little desire on either side for education to be anything but monocultural. Still, the mere fact that in this corner of Kosovo the communities tolerate one another's existence—and co-operate in local politics—is an achievement by the province's dismal standards.

Reuters

Skopje says no to a binational city

Elsewhere, the atmosphere is tense and moody, thanks to a vicious circle of economic depression and uncertainty about the political future. Unemployment among Kosovars is over 50%. Polls suggest that the province's 100,000 Serbs and (very roughly) 1.9m Albanians agree on only one thing: it is their international overlords—in charge of the place since the 1999 war between NATO and the Serbs—who are mainly to blame for the slump.

This view is not quite fair. The violence of last March—in which 19 people died and 4,000 Serbs, and other non-Albanians, were made homeless—was indeed a failure by Kosovo's protectors. But the economy is not entirely within their control. As long as the UN Security Council cannot decide where the province belongs politically—and hence who ultimately owns its assets—there is only so much that can be done to revive its commercial fortunes.

In the meantime, UN officials say, they are getting on with what they can, economically and politically. This week they announced plans for a power plant and lignite mine which would turn Kosovo from an importer to an exporter of energy. But in the words of Nikolaus Lambsdorff, an energetic German who oversees the province's economy, some “legal and technical issues” must be settled first. Meanwhile provincial elections are due in October—though many Kosovars grumble that it is hardly worth voting in a poll that will not deliver independence.

One of the UN's proposals, as it searches for ways to improve the political atmosphere, is to devolve more power to local authorities, like that of Kamenica. Ethnic-Albanian nationalists loathe this idea; they want Kosovo to be as unitary as possible—or to put it another way, they don't want Serbs and other non-Albanians to consolidate their power in those areas (like northern Kosovo) where they predominate. The War Veterans of the Kosovo Liberation Army, a shadowy group which hints of a fresh war, says “decentralisation” could be a step towards reviving the Serb oppression of the 1990s.

In contrast, militant ethnic Albanians in neighbouring Macedonia love the idea of boosting municipal power. Indeed, a big increase in municipal authority was the price that Albanian nationalist fighters,

closely tied to their cousins in Kosovo, extracted for laying down their arms in 2001. Devolution was the centrepiece of a settlement, brokered by the European Union, which stemmed an incipient war. Now that the deal is about to be implemented, tension between the Slavic-Macedonian majority and ethnic-Albanian minority—about a quarter of the population—is rising fast.

In the south Macedonian town of Struga, a recent protest against the peace plan, and in particular against the provisions that would boost Albanian influence at local level, turned into riots in which 40 people were injured. Last week, 20,000 people joined a demonstration against the plan—and its concessions to the Albanians—in the Macedonian capital, Skopje. Especially controversial are provisions that would widen city limits to include several Albanian-dominated districts and hence push the Albanian share of the city's population over 20%. That would make Skopje a bicommunal, bilingual city.

Opponents of devolution (in other words, those who oppose enhanced Albanian power at local level) say they have gathered at least 90,000 signatures: if they gather another 60,000, they could force a referendum on the issue. Even if—as expected—the legislation needed to implement the peace plan squeezes home, its implementation could be a fraught business. As things now stand, the coalition partner of Branko Crvenkovski, the prime minister, is Ali Ahmeti—an Albanian nationalist who led the uprising in 2001. The main opposition, VMRO, is heir to a century-old Slavophile tradition and it is trying hard to rock the political boat.

In the southern Balkans, moreover, the contest between local versus central power is not just about schools and drains: in an ethnically divided country, devolution can be a stepping-stone to virtual partition—and thence to the outright break-up of a state or territory. Or alternatively, it may be the minimum needed to appease nationalist pressure and hold a state together, albeit in a loose, ramshackle way.

Both in Kosovo and Macedonia, there is a palpable risk that rows over devolution, and other seemingly technical issues, could lead to fresh shooting. In the words of Nenad Sebek, director of the Centre for Democracy and Reconciliation, a Salonika-based NGO, “this is a part of the world where even the moderates are more extreme than they pretend to be.”

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France

Flying a bit too close to the sun?

Aug 5th 2004 | PARIS
From The Economist print edition

Serge Dassault, the aerospace king, soars in the world of politics too

Serge, soon to be a senator?

WHEN *Le Figaro*, France's leading centre-right daily newspaper, along with some 70 other titles, was snapped up earlier this year by Dassault, a big defence company, scarcely a French eyebrow was raised. That may seem odd: the purchase raised questions, to put it mildly, about the independence of the press from political interference, given the reliance of Dassault's fighter aircraft, in particular, on state contracts. Yet in France, such overlaps of interest seem uncontroversial. There is little debate over the fact that Lagardère, a co-owner of EADS, Europe's biggest aerospace firm, is also France's top magazine publisher. By one calculation, 70% of the French press is now in the hands of defence companies.

Recently, however, a new twist to the story has deepened concern among those people in France who do worry about the concentration of different forms of power. Serge Dassault, the company's boss and son of Marcel, its founder, has been picked to head a party list in Essonne, one of France's biggest departments, for elections to the Senate in September. And the party? President Jacques Chirac's ruling Union for a Popular Movement (UMP). The head of the UMP federation in Essonne, Pierre-André Wiltzer, a former minister in Mr Chirac's government, was so livid that he has vowed to set up a rival list of his own.

In some ways, Mr Dassault's political ambitions should come as no surprise. His father, Marcel, helped to launch the young Mr Chirac's own political career in rural Corrèze. His son, Olivier, is a UMP member of parliament, as well as head of Dassault Communications, a media subsidiary of the group. Serge himself is already the UMP mayor of Corbeil-Essonnes, a town south-east of Paris.

Elections to the French Senate are indirect, via an electoral college. If voted in, as is likely, this will be—at the age of 79—Mr Dassault's first national mandate. To put the story in Anglo-Saxon terms, it is rather as if Rupert Murdoch, the media baron, bought Lockheed Martin, the aerospace giant, and then went to Capitol Hill as a Republican. Mr Dassault has assured his employees of his respect for “freedom of thought”—but he has not hesitated to criticise *Le Figaro*'s content.

“What shocks us most”, says Pierre Desfassiaux, of the National Union of Journalists (SNJ), “is the absence of any reaction, especially among politicians.” Journalists at *Le Figaro*, *L'Express* and some regional papers have been seeking ways to protect editorial freedom, but many at the smaller papers fear for their jobs: Mr Dassault says he will not tolerate loss-makers. Among politicians, there is only a glimmer of protest. “It is not just a question that concerns journalists in the group,” says François Hollande, the Socialist leader. “It should be put to the President of the Republic.”

This being August in France, the aerospace firm was not available to comment. Mr Dassault himself may feel no conflict of interest; but the trouble with such arrangements is that even if no influence is improperly exercised, suspicion will always linger. The government—for instance—is now finalising negotiations to buy, for about €3 billion ($3.6 billion), some 59 Rafales, a new-generation fighter aircraft made by Dassault. “The coincidence”, as *Le Monde*, a left-leaning paper, put it, “is at the very least troubling.”

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Development

Just the place to plant a new town

Aug 5th 2004
From The Economist print edition

The concept of the free-standing new town is on the way back

IN THE late 1940s and the 1950s, new towns such as Stevenage and Corby mushroomed across the fields of Britain. The most recent was Milton Keynes, which was started in 1970. Developers reinvented the idea in the free-market 1980s, but the Tories of the shires were more hostile to development than they were keen on market forces. County councils said no, again and again, and the developers stuck the plans in their bottom drawers. Now, thanks to housing pressures and price rises, especially in the south-east, plans like these are coming out again.

The government thinks councils have allowed too little new housing to be built. So the new Planning and Compulsory Purchase Act, which will start taking effect in September, shifts the bias in the system. District councils will still rule on individual schemes, but the county councils' guidance, embodied in broad "structure plans", often reflecting their voters' Nimbyist tendencies, will be replaced, from this autumn, by new regional "spatial strategies". These will be drawn up by unelected regional assemblies, which (Whitehall hopes) will take a wider view and (as Whitehall knows but wouldn't dream of saying) will be more responsive to central government. What's more, they will have the force of law, which will help developers who appeal against councils' decisions.

Not that it is just Whitehall or the developers who want the rules eased to aid development. Some councils too are worried by the impact of high house prices on low-paid workers. Already, councils are being asked to approve—or indeed themselves proposing—developments bigger than anything seen for decades. Huge (and controversial) expansions of Stevenage and Milton Keynes are on paper. Further ahead, Whitehall talks of still more in the south Midlands, of the M11 corridor, the "Thames Gateway" and a more than doubling of Ashford, in Kent.

And within this growth, the free-standing new town may be making a comeback. The 1980s developers who argued that the "new country town", big enough to generate its own employment, was a better way ahead than endless infilling, or expansion, of existing towns and villages, lost in the committee rooms: one company called Consortium Developments tried for no fewer than three such towns, in Essex, Berkshire and Oxfordshire, was thrice denied planning permission, and gave up. But they didn't lose the argument. Even then, some planners accepted their case, provided the right sites could be found. Now, with ever more housing called for, and commuter traffic ever less popular, the idea is back in fashion, and some new towns may actually get built.

Cambridgeshire may even have two. Its county council is already backing "Northstowe", north of Cambridge, which could have 6,000 houses by 2016, and 8,000-10,000 five years later. By then, it would swallow up the villages of Oakington and Longstanton. Now Little and Great Abington, south-east of Cambridge, have had a shock: they were once named as a possible new-town site, but thought the Northstowe scheme had saved them. Not so, they learned this summer: as Stansted airport, 20 miles away, expands, they could find themselves swamped by over 20,000 houses.

Three miles south of Bedford, Gall-agher Estates, the promoters of Northstowe, have a scheme for 4,500 houses: "The Wixams", in theory four separate villages, on a partly brownfield site. There are many smaller schemes. Up in Scotland, Stirling is looking at a brand-new "village" of 2,500 houses just east of

the city. Down in Devon, a planning application is already in, backed by a consortium of builders, for a 2,900-house greenfield settlement three miles east of Exeter; another of 3,500 houses is planned near Plymouth.

Those projects are all broadly backed by the county and district councils concerned. Not so the purest—and most potentially controversial—example of the trend, in Hampshire. That rich county is now in uproar over a developer's plan for 2,000 homes on farmland at the edge of Winchester, the county capital. Few of the protestors know that a far bigger scheme is afoot, one that they thought had been crushed decisively long ago: a plan for an entire new town a few miles to the north.

Since 1975, Eagle Star, an insurance company, has owned a large, mainly greenfield, estate round Micheldever Station, a hamlet between Winchester and Basingstoke. In 1990, it put up a plan to turn 870 acres of this into a stand-alone town of 5,000 houses. No way, said critics: in time, the result would be a 30-mile conurbation from Basingstoke down to Southampton. The county and district councils glowered. The plan looked dead.

It isn't. This autumn, Eagle Star will relaunch its scheme, now swollen to 9,000 houses, to meet the objection that nothing smaller can really stand alone, but will just end as a traffic-generating commuter suburb. That rebuttal may be dubious. But today's call for low-cost housing is a plus for Eagle Star. In 1990, its then offer that 20% of the new houses should be in this bracket looked generous; today, the district council looks for 30% or more. But Eagle Star could afford that: it owns all the land, and if it gets permission will profit hugely from selling parcels of land to builders.

Even so, the scheme may never go ahead. The county council thinks Hampshire can meet the housing target it has been set without even the smaller, Winchester-edge, plan. Maybe. But as the new regional strategies come into force, expect more projects, Eagle-Star-style, for outright new towns where no town ever was.

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Big houses

New style for new money

Aug 5th 2004
From The Economist print edition

The government wants rich people to build modern houses

ACQUIRING a country house is one way into Britain's strangely porous upper classes. Those among the newly rich brave enough to build their own have tended to choose a design that doffs its cap to tradition. Planning guidelines, too, have encouraged neo-classical or some other historical revival.

Under Britain's current rules, any new houses have to be approved by the local council. Houses standing on their own in attractive bits of countryside are unlikely to get permission unless they meet criteria known by planners as the “Gummer clause”. Named after John Gummer, the former Conservative environment minister, this stated that a big house could be approved if it was “truly outstanding in terms of its architecture”.

Though it was not meant to impose any particular style on planners, local councils mostly used the Gummer clause (or PPG7, to give it its proper title) to approve houses in traditional styles. The Royal Institute of British Architects thinks that around 22 designs were approved, the majority of them traditional. The two that have actually been built are both solidly neo-classical.

But this week the government gave wealthy would-be patrons a tentative push towards modernism and exotic materials by re-wording an obscure but important clause in its planning guidelines. This now says that houses may be approved if they are “innovative” and “ground-breaking”. The changes look small but in architect-speak they are significant. “For innovative, read modernist,” says Robert Adam, a neo-classical architect with a wonderfully revivalist name.

What is less clear is whether conservatively-minded patrons, many of whom prefer Palladio to le Corbusier, will put their money behind contemporary designers. The most revolutionary of recent designs, for Grafton New Hall in Cheshire (see picture), has lost its patron and may now not be built.

Anyway, history favours revivalism. Of eight British buildings with UNESCO world heritage status, four (Blenheim Palace, neo-classical ones in Bath and Edinburgh, and the gothic revival Palace of Westminster) are pastiches.

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Domestic terrorism

A bigger fish

Aug 5th 2004
From The Economist print edition

Anti-terrorism raids are doing more good than harm

THE arrest of 13 Asian men in London, Watford, Luton and Blackburn on August 3rd was greeted with much excitement. Not that British police were saying much about the detainees. They are sensitive to charges of scaremongering. But according to reports from Pakistan, one of the detainees, known as Moussa (or possibly Eisa) al-Hindi, is the head of al-Qaeda in Britain, who gets his orders directly from Osama bin Laden, and was in the final stages of planning an attack on Heathrow. Mr al-Hindi's arrest seems to be the result of the detention in Pakistan last month of Muhammed Naeem Noor Khan, an alleged al-Qaeda operative who is said to have had maps of Heathrow on his computer. An American official has been reported as saying that Mr al-Hindi's capture is “significant”.

Mr al-Hindi is unlikely to be back on the streets soon, but there is concern about the consequences, or lack of them, for most of those caught in such raids. As Anas Altikriti, a spokesman for the Muslim Association of Britain, notes: “There's always a lot of publicity surrounding these raids, and rather less publicity when the suspects are released without charge two or three days later.”

While America sends suspected plotters to stew in naval brigs (and interns foreign ones in Cuban cages), Britain barely lets suspects get acquainted with their cells before dispatching them back on to the streets. According to the Home Office, 609 people were arrested under the 2000 Terrorism Act between September 11th 2001 and the end of June 2004. Of that group, only 99 have been charged partly or wholly with terrorism offences, and just 15 have so far been convicted. The Home Office cannot confirm that all of them were sent down specifically for nefarious plotting; even if they were, a strike rate of 2.5% does not seem very impressive.

But such a dismal performance in the courts doesn't necessarily mean the raids are pointless. At a minimum, arresting and questioning people who are genuinely up to no good throws them off their stride. Even if detainees are merely terrorist fellow-travellers, a trip to the police station will sow suspicion and discord among more committed folk—what might they have told the police? And, if nothing else, the coppers get some idea of how extremist organisations work. Brian Jenkins, an analyst at the Rand Corporation, an American think-tank, points out that the FBI engaged in the same sort of speculative charging and questioning when it was tackling the Klu Klux Klan in the 1960s. It had, he says, a “chilling” effect on the hooded mob.

Grillings in police stations are also preferable to internment—a method that is employed in Britain only for non-citizens, and sparingly. Internment is not only an affront to human rights; it can also make sympathisers feel so angry and victimised that they are drawn into terrorist networks (as happened in Northern Ireland in the 1970s).

Nor is internment a good long-term solution to terrorist plots. Even if juicy information can be extracted from detainees, it can be almost impossible to use it in a conventional criminal trial, as America and Britain have discovered.

Britain's raid-and-release methods may be mildly humiliating for the police and criminal justice system, not to mention those arrested. But a mockery of justice is preferable to none at all.

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Football and sex

Svengolly

Aug 5th 2004
From The Economist print edition

Too much scoring off the pitch, and not enough on it

TWO middle-aged, unmarried executives have affairs with the same unmarried, 37-year-old female employee. Potentially a bit embarrassing, but not much worse—unless, that is, the organisation they happen to work for is the Football Association (FA), which runs England's national game, and one of the chaps is the England football manager, Sven Goran Eriksson and the other is the FA's boss, Mark Palios.

Reuters

Eriksson and Palios shared more than a joke

After press reports that Mr Eriksson was conducting an affair with Faria Alam, an FA secretary, Mr Eriksson was asked whether it was true, and is said to have responded that it was all “nonsense”. Seemingly on the strength of this ambiguous reply, which could have implied either exasperation or denial, the FA issued a statement saying there had been no relationship and threatened legal action if the reports continued. Exactly what Mr Eriksson said is the key to whether or not he can keep his job.

Employment lawyers say he would have been entitled to refuse to answer any questions about his private life. But if he was asked a direct question to which he gave an untruthful response, he could be in trouble, particularly if he knew that his employer was about to issue a denial of the story on his behalf. Under those circumstances, according to Catrina Smith of Linklaters, a City law firm, he would be in breach of trust and liable to dismissal without compensation.

This appears to be what at least some people at the FA were counting on. Just before this summer's Euro 2004 international football tournament in Portugal, the FA feared it was about to lose Mr Eriksson to Chelsea's billionaire owner, the Russian oligarch, Roman Abramovich. Mr Palios secured Mr Eriksson's continued loyalty by imprudently increasing his already very generous wages to around £4m a year and extending his contract until 2008.

Unfortunately, although Mr Eriksson was paid nearly as much as all the other 15 coaches at Euro 2004 put together, England failed to advance beyond the quarter finals. While other unsuccessful coaches either quit or were fired, Mr Eriksson, with a contract worth £16m, was unsackable.

If the FA had a chance of using Mr Eriksson's latest indiscretion to get rid of him on the cheap, it lost it last weekend when the *News of the World* revealed that Colin Gibson, the FA's director of communications, offered a deal: in exchange for keeping quiet about Ms Alam's prior relationship with his boss, Mr Palios, the paper would get the full “chapter and verse” on Mr Eriksson's fling with the FA's *femme fatale*. The *News of the World* promptly published the full transcript of its conversation with the hapless Mr Gibson. Mr Palios and Mr Gibson resigned.

Stefan Martin, an employment specialist at Allen & Overy, a law firm, says that Mr Eriksson could now sue the FA for breach of trust and constructive dismissal. Impoverished by the bungled rebuilding of Wembley stadium, the FA could find itself having to pay Mr Eriksson in full as well as needing to hire a new manager. A negotiated departure is the most likely outcome, although Mr Eriksson, having seen off at least some of his enemies, might yet decide to soldier on. As *The Economist* went to press, a special meeting of the FA board was deciding what to do.

Entertainment value aside, the story includes a helpful lesson for office romantics. While in some American firms affairs between employees can lead to dismissal, British firms tend to be tolerant unless other rules are broken. Roland Doughty, an employment law partner with Slaughter and May, advises: “If asked about your private life by your employer, it's better to say nothing than to lie. If there's no comment, there's generally no liability.”

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Rebuilding Manchester

Backing back-to-backs

Aug 5th 2004 | MANCHESTER
From The Economist print edition

Could some of the country's worst housing become trendy?

LINES of back-to-back houses in the title sequences of “Coronation Street”, a television series, are the visual cliché for northern English working-class housing. In fact the famous streets, in Langworthy, a suburb of Salford, near Manchester, have been semi-derelict for some years. Average house prices there have collapsed from £28,000 to £7,000 in the past five years.

State-run regeneration schemes have failed to halt the decline, but Tom Bloxham, a Manchester property developer, thinks he can turn the area into one of the coolest addresses in the north of England. Past experience is encouraging. His stylish offices near the city centre look out over an expanse of warehouses turned into smart flats and factories reborn as swish business premises. Ten years ago, it was all derelict. “City centres like these are pretty much sorted out now,” he says. “The problem we have now is the doughnut of decay around the centres.”

Converting warehouses into flats has worked in London, but Manchester's rundown areas, where property is sometimes nearly valueless, had daunted other developers. Urban Splash, a firm Mr Bloxham formed in 1993 with Jonathan Falkingham, an architect, gambled that Manchester, the cultural capital of the north-west, was home to enough people with contemporary tastes who would be interested in buying unusual and voguish flats, even in a slightly dodgy area.

Sure enough, flats were sold before they were completed. The key was employing architects who produced original and “funky” designs, says Mr Bloxham. He was so successful in Liverpool and Manchester that big developers such as Bellway Homes have muscled in. So Mr Bloxham has moved on to the “doughnut”.

He plans to turn 437 houses into 350 units selling for around £50,000, with the backyards and alleys converted into enclosed communal gardens. Langworthy, he points out, is at the end of a tramline into Manchester, and a couple of stops away from the Lowry Centre, where a redevelopment project has generated some 10,000 new jobs. Such is Urban Splash's success that it has expanded far afield. It is redeveloping former dockyard buildings in Plymouth, the vast Manningham Mills in Bradford and Dunlop's former tyre store in Birmingham, among other schemes.

Another plan for Manchester's inner suburbs, likely to cost about £200m, is for 25 acres on the east side of the city centre. Once factories, then a 1970s housing estate, it went downhill rapidly in the 1990s. Mr Bloxham intends to clear the site and build 1,400 new homes over the next ten years in fancy blocks around arms of an extended canal. Time for a new soap opera about Mancunian yuppies?

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British National Party

Nasty, brutish and short-lived?

Aug 5th 2004
From The Economist print edition

An absurd row is splitting Britain's extreme right

Get article background

HOW respectable should a far-right party be? This is proving a tricky question for the British National Party (BNP). After a television documentary exposing activists' brutality, Barclays Bank told it to move its money elsewhere, which means it has failed to submit its accounts to the Electoral Commission. Meanwhile many of the party's activists think its leader, Nick Griffin, has gone soft in pursuit of electoral gain, and are turning against him. Too thuggish for some and not thuggish enough for others, the BNP does not know which way to turn.

Mr Griffin, who took over as party leader in 1999, has been making softer noises about race, immigration and homosexuality. Forced repatriation of ethnic minorities is out, for the moment at least. Mr Griffin has said that a little immigration can be good and, improbably, the party now has an “ethnic liaison committee”.

Not far below the surface, the racism remains. Phil Edmunds, a party spokesman, says, for example, that apartheid was “probably the best thing that happened” to South Africa. But even though activists probably know this, they still find Mr Griffin's statements infuriating.

The new moderate tone has done Mr Griffin some good with the electorate. The BNP polled 808,201 votes in elections to the European Parliament in June, or 4.9% of the British vote. But for the presence of the UK Independence Party, which probably siphoned off the votes of some non-racist nationalists, the BNP might have picked up a couple of seats, joining France's National Front and other more successful far-right groups in Brussels.

But Mr Griffin's attempts to emulate the French National Front are causing him problems within the party. The National Front, whose leader Jean-Marie Le Pen recently visited Mr Griffin, makes a big fuss of its handful of black and North African members. Does Mr Griffin now want to take the BNP down the same route, allowing non-whites to join, thereby deflecting charges of racism and moving the BNP a little nearer the mainstream?

Enough of his party think so to leave Mr Griffin “very isolated”, according to Catherine Fieschi of Nottingham University. Mr Griffin has already caused some supporters to leave the party by putting up candidates with black relatives. He says (improbably) that non-white membership is “going to happen”, if only because the law requires the party to admit ethnic minorities. But Mrs Fieschi thinks that he will find it hard to emulate Mr Le Pen. “The National Front is culturally racist: it says that so long as you behave in a properly French manner that is alright,” she says, “but the BNP is really racist.”

The wrangle with the Electoral Commission will probably be sorted soon—the BNP has been given permission to bank, ahem, abroad—but the row over non-white members will not. Cas Mudde at Antwerp University points out that the extreme right in Britain has never been taken seriously because it has been so divided. Mr Griffin seemed to have overcome that problem and turned the BNP into an electoral force. That now looks doubtful.

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Interest rates

Just a little tighter

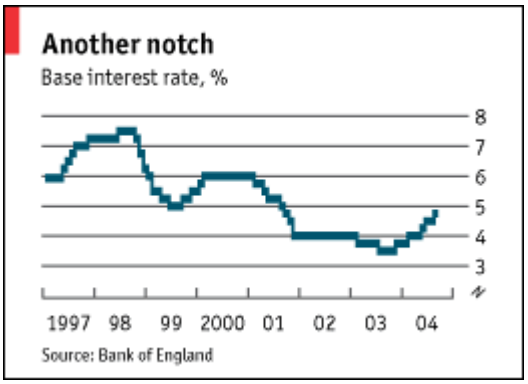
Aug 5th 2004
From The Economist print edition

The Bank is raising rates, but slowly

Get article background

AS EXPECTED, on August 5th, the Bank of England took a further step to cool Britain's booming economy by increasing the base interest rate from 4.5% to 4.75%, the fifth such increase since November.

Some economic commentators, including the National Institute of Economic and Social Research, had called for a half-point increase—the first of its kind since the Bank of England gained its independence—to shock consumers into more prudent behaviour. However, faced with a welter of conflicting data, the Bank has preferred to stick with the gradualism outlined in a speech last week by the Bank's chief economist, Charlie Bean.



Mr Bean argued that while fears of a £1 trillion debt "time bomb" had been overdone, "uncertainty about the reaction of house prices and of the response of highly indebted households to higher interest rates also suggests a cautious approach." But financial markets are betting that rates will rise again soon to 5%.

The Bank is worried about overshooting if the economy has already begun to slow. The trouble is that the available evidence is very mixed. This week, the British Retail Consortium's shop price index showed that prices had fallen by 0.7% in July, bringing annual inflation down to 1.2%—hardly consistent with overheating consumer demand. Against that, official retail sales figures are still showing stronger growth than the Bank feels comfortable with.

Accounts of what's going on in the housing market are similarly inconsistent. On August 4th, the nation's biggest mortgage lender, the Halifax, reported that house prices had risen 1.3% in July compared with 1.2% the month before. According to the Halifax, in the year to July, houses rose by 22.1%. By contrast, housebuilders, such as Taylor Woodrow and Wimpey, think that prices are rising at between 6% and 3%. The estate agents' website, rightmove.co.uk, claims that asking prices are actually falling—by 1.3% in London during the last three weeks of July and by 0.5% across the rest of the country.

Less ambiguous proof that the economy is growing rapidly came this week from the CIPS-Reuters purchasing managers' index for manufacturing. This barometer showed that manufacturing industry is enjoying its strongest expansion for nearly a decade. If, as is probable, GDP is growing at nearly 1.5 points above its trend rate of about 2.5%, it will not be long before the output gap is fully closed. Once that happens, inflation can be expected to pick up, putting into jeopardy the Bank's 2% Consumer Price Index target. With oil prices also moving sharply upwards again, the Bank will have to apply another touch on the brakes again soon.

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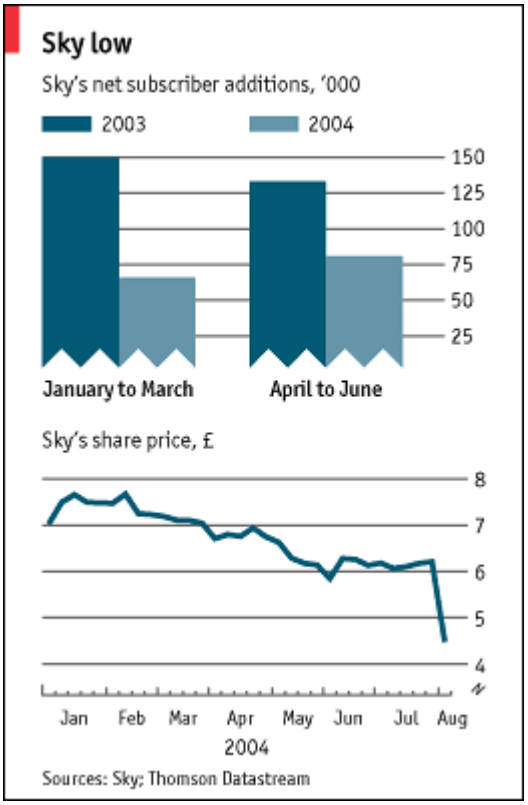
BSkyB

Sky's limit

Aug 5th 2004
From The Economist print edition

Growth has slumped at BSkyB



IT HAS been an embarrassing summer for Rupert Murdoch's sons. In July the front page of the *New York Post*, run by Lachlan, announced that Richard Gephardt would be John Kerry's running-mate on the day John Edwards was chosen. This week James revealed numbers at BSkyB that show a serious growth problem at the 14-year-old company. In its latest quarter BSkyB added 81,000 customers, sharply lower than the 133,000 it gained in the same period last year, and below what investors expected. They now worry that the company will not meet its target of 8m subscribers by the end of 2005. The firm's shares fell by 19% on the news.

BSkyB makes lots of money from its existing 7.4m subscribers: operating profit for the quarter was up 65% over last year, contributing to a 16.4% operating margin for 2004. The problem is not profitability, but growth. There is a limit, it seems, to the number of people willing to pay £33-40 a month for sport and movies. Most of those who want the service at its current price already have it. BSkyB now has to decide how much profitability it should sacrifice in order to jump-start growth.

To the dismay of investors, who are sceptical that earlier growth rates can return, James Murdoch seems prepared to sacrifice quite a lot. As part of a wide-ranging new strategy he has set a target of over 10m subscribers by 2010. The company will spend 40-50% more on advertising next year and an extra £450m on upgrading its infrastructure over four years. More money will go on programming. And whereas, in the past, it has spent its marketing money on selling its expensive packages, in future it will push its cheaper bundles of TV channels. But this is a risky strategy: instead of getting lots of new customers, BSkyB may find that people paying £40 now want to downgrade to a cheaper package.

BSkyB's plan assumes that the British television market will in time look like America's, in which more than four-fifths of households pay for television channels. BSkyB reckons that, as Britain moves towards switching off its analogue television signal, more and more households will shift either to Freeview, a popular free-to-air digital service, or to BSkyB's own free satellite service, to be launched later this year. But in the longer term, the firm argues, many of those people will be prepared to pay.

However, Julian Dickens of Mercer, a consultancy, says America may not be the right model. He points out that more German households than American ones have multi-channel television, but 80% of them still opt for free television. And Britain, unlike America, has a prolific and lavishly funded public broadcaster.

Some in the City are looking beyond James and trying to work out what his father is up to. A conspiracy theory suggests that Rupert, who controls 35.4% of BSkyB, would like to see the company's share price fall so that he can increase his holding cheaply. That could be a step towards uniting it with DirecTV, his fast-growing American satellite television business. James will have a struggle not only to win more subscribers but also to allay such suspicions.

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Putin versus the oligarchs

The future of Russian business

Aug 5th 2004 | MOSCOW
From The Economist print edition

EPA

What the assault on Yukos means for Russian business, politics and power

Get article background

“IT FEELS like we're being toyed with—like a baby seal being batted back and forth by killer whales.” Thus one Yukos employee describes the sensation inside the company that was once the alpha whale of the Russian oil industry, but is now gasping to stay afloat under a barrage of legal assaults. This week, while it became clearer that the firm could keep on pumping oil, less happily the tax ministry began looking for tax evasion in 2002 and 2003, to add to the nearly $7 billion it wants in back taxes for the previous two years. Last week prosecutors charged Leonid Nevzlin, one of Yukos's main shareholders, who now lives in Israel, with conspiracy to murder.

Foreign-investment analysts are feeling pretty seasick too. Since the attack on Yukos and its then boss, Mikhail Khodorkovsky, began over a year ago, many have assumed that the goal was to punish him for his political influence-peddling, and probably to separate him from Yukos, but to leave the firm undamaged and in private hands. Harsh on him, perhaps, but not bad for the economy, and not—as native Russian observers were more wont to say—an asset-grab by Kremlin cronies. Yet recent announcements hint at a new plan: to break Yukos up and sell it off at artificially low prices, with the main production subsidiary, Yuganskneftegaz, perhaps going to the state oil firm, Rosneft (whose new chairman, Igor Sechin, is one of President Vladimir Putin's closest aides). If that happens, says a gloomy Al Breach of Brunswick UBS, usually one of the most upbeat foreign analysts, “it would be hard not to conclude that the Kremlin's key motivations are personal power and wealth”.

Yet the end for Yukos has not yet come and may not for a while. Bailiffs last week seemed to backtrack by giving Yukos another month to pay its $3.4 billion tax bill for 2000. This still seems impossible. But the move allows room for negotiations that are rumoured, yet again, to be on. Yet such talks will only decide what, if anything, Yukos's owners will get for the firm, and how long Mr Khodorkovsky and his business partner, Platon Lebedev, must sit in jail for alleged fraud and tax evasion. And the delay could just be to allow the more important, far murkier negotiations in the Kremlin over who gets the spoils.

Presidents and precedents

Mr Putin may well have hoped for a quicker, quieter and tidier solution. But his aloofness (except for an occasional soothing but empty statement) as the battle with Yukos escalated has taught investors two things about him that they hoped were not true. One is that he would rather unleash full-blown market panic than back down and lose face. The other—not yet proved, but increasingly suspected—is that he is willing to allow some renationalisation. This raises big questions. Are other firms safe? What is the state's future role in the economy to be? And who will benefit?

In the big picture, who owns Yukos may matter little. Indeed, says Yakov Pappe of the Russian Academy of Sciences's Institute of Economic Forecasting, nationalising Yukos—if it were done right—would correct a mistake made during the privatisations of the 1990s. Rosneft was intended to be one of a few big oil firms, but ended up as one of the smallest of many.

There have been signs for months, says Chris Weafer at Alfa Bank, that the state wants a bigger role in oil. Russia is the world's biggest oil producer and second-biggest exporter, after Saudi Arabia. Yukos alone pumps 2% of world output, more than Libya. When it threatened to stop pumping last week, claiming that a court had ordered it to, it helped to push up world oil prices to their current highs (see article). Nationalising Yukos would give Russia the strategic leverage in oil that it enjoys in gas, which the state-controlled monopoly Gazprom sells to nearly all of Russia's neighbours and most of Europe.

Whether the assets of Yukos go to Rosneft, a Kremlin-friendly private firm such as Surgutneftegaz, or a proposed new oil subsidiary of Gazprom, may now be the focus of Kremlin infighting. Rosneft is already pulling its weight, in partnership with foreign firms, exploring for deposits off Sakhalin island in the far east. Similar joint ventures may be ordered to explore the untapped reserves of Eastern Siberia.

But private firms, hitherto lazy about exploration, may also be encouraged by the Kremlin to take up the burden, says Alexei Mukhin, of the Centre for Political Information, a think-tank. Given Yukos's fate, they will respond quickly to that encouragement. Firms in other sectors, too, will pay more heed to official wishes. Thus, says Mr Mukhin, the Kremlin is ushering in a form of “state capitalism”.

When Mr Putin came to power, many predicted that he would replace the “oligarchs”, the business cabal that had formed around his predecessor, Boris Yeltsin, with his own men. Vladimir Gusinsky and Boris Berezovsky, two media moguls who got in his way, had to go into exile, and several other businessmen capitulated after prosecution threats. Mr Khodorkovsky was part of another potentially troublesome group, says Mr Mukhin, that included Roman Abramovich, an oil man and now English-football tycoon, and Oleg Deripaska, an aluminium baron. “The way is now open for Deripaska to be next—though that does not mean it is going to happen,” says Mr Mukhin.

But Mr Putin, it seems, did not declaw one set of monsters only to create another set. People originally tipped to be future Putingarchs—such as two bankers, Vladimir Kogan and Sergei Pugachev—have continued to prosper, but have not become billionaires, nor won government posts. Those officials with suspected business ties are smaller fry; and the most notable ones, Leonid Reiman, the communications minister, and Mikhail Lesin, the former press minister and now presidential adviser, even predate Mr Putin.

There are incipient potential oligarchs, such as Alexei Mordashov of Severstal, a steel firm, one of whose former executives is now minister of transport. But the main new power-brokers, says Mr Mukhin, are not oligarchs but “overseers”: people such as Rosneft's Mr Sechin, his Kremlin boss, Dmitry Medvedev (on the board of Gazprom) and other advisers to Mr Putin with control over state firms.

The fear is that although, unlike the oligarchs, these men are theoretically beholden to Mr Putin, the opposite may prove true. “Without counterweights and a separation of power, Putin may end up under the influence of the people around him, always consulting him and telling him he is the master of everything,” says Yevgeny Yasin, head of the Higher School of Economics. These bureaucrats, he says, are “people who believe that their job is defending the state's interests and that business is a bunch of thieves.”

Yevgenia Albats, a journalist and political scientist who specialises in the *siloviki*, the former members of the security services who make up Mr Putin's inner circle, concurs: “The problem is not that the state is taking control, but that the *silovik* culture is taking control.” Many of Mr Putin's allies, she says, are second-rate ex-KGB officers with no business skills who now have positions of power, “a government of the mediocre”. And, says Olga Kryshtanovskaya, a sociologist, their influence in smaller, private firms

and through lobby groups in parliament is growing too.

With such a group on top, Russia faces continued conflicts between the bureaucracy and big business, fought out through a biased judicial system. That has “depleted trust between business and the state,” says Mr Yasin, and will encourage local politicians and officials to use the same methods, delaying the creation of the rule of law still further. And as with the oligarchs in the 1990s, the risk is that the (private) interests of the overseers and those of economic policymaking will become hopelessly entangled. The difference is that, with government an increasingly hermetic place, it will be harder than ever to tell the two apart.

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Doing business in China

Fools rush in

Aug 5th 2004 | HONG KONG
From The Economist print edition

China's chaotic business climate continues to claim foreign victims

EVEN with its economy slowing, China remains the corporate world's favourite destination. Actual foreign direct investment (FDI) rose to $34 billion in the first half of 2004, and is on course to exceed $60 billion for the year—a new record. Contracted FDI, deals that are signed but not yet completed, jumped even higher, to $73 billion, in the same period.

Foreign multinationals are loth to admit it, but doing business in China is far from easy—and often not very lucrative. Take another look at the FDI figures: in the late 1990s, actual and contracted FDI numbers matched as firms invested as fast as they could sign deals. While the absolute sums have grown since, a gap has emerged and widened (see chart). This is explained, at least in part, by the fact that not all the dream deals that are signed materialise. Indeed, there is evidence of an increasing number turning sour.

That was certainly true for Shell, ExxonMobil and Gazprom, three oil and gas giants. They thought they had agreed to build an $18 billion gas pipeline across the mainland jointly with PetroChina, China's biggest oil firm. On August 3rd, the deal fell apart. Bankers close to the talks said that PetroChina tried to cut the project's percentage return on investment to low single figures because it would not be able to sell the piped gas for as much as it had hoped. With the atmosphere already damaged—PetroChina's ex-chairman Ma Fucai was always against foreign involvement—this was the last straw. The foreign firms had not invested much cash. But after three years of fraught negotiations, they now walk away with nothing, leaving behind their designs, field-development plans and technology.

The goal posts suddenly shifted too for Thames Water, a British firm which is now part of German utility RWE. In June, Thames pulled out of a $73m advanced waste-water treatment plant it had built and was running in Shanghai, after Beijing ruled that the fixed annual 15% return Thames had negotiated with the city was now illegal.

British American Tobacco, which announced last month that it had won central government permission to build a $1.5 billion cigarette factory—the first such foreign-controlled plant—found its apparent coup roundly contradicted by other branches of the state, including the national tobacco monopoly and China's main economic policymaking body. The British group has been negotiating this investment since 2000—and it is still not clear when, or if, it will get the green light. SABMiller, a South African brewer, meanwhile, was not even given a chance to negotiate. Earlier this year, the management of Harbin Brewery, in which it owned a stake, and Harbin's local city government, also a shareholder, contrived to sell the beer-maker to America's Anheuser-Busch through a murky investment vehicle.

There are, of course, overseas firms making good money in China. But navigating the country's opaque bureaucracy and maze of ever-changing rules, finding trustworthy local partners, understanding that Chinese officials at the highest level believe that foreign firms deserve little in return for their investments, and battling piracy and outright fraud, continue to take up more time, energy and money than in any other major market. The fact that more and more planned investments never materialise may be a sign that the foreigners are at last getting wise to this.

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Economist.com BUSINESS
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Europe's travel industry

Wishing they weren't there

Aug 5th 2004 | PARIS AND FRANKFURT
From The Economist print edition

Europe's big travel firms are struggling

SUMMER is proving a horrible season for Europe's three biggest travel firms. The share price of Germany's TUI, the market leader, is on a rollercoaster ride because of its big debts and pension liabilities and, lately, takeover speculation. Thomas Cook, which is owned by Lufthansa and KarstadtQuelle, says it will continue to make losses this year. And Britain's MyTravel, which is in even poorer shape than its rivals, is sacking staff and cutting its aircraft from 30 to 21. Some doubt that MyTravel can survive until next summer.

TUI's most pressing worry is its share price. This year its shares have lost about one-third of their value. The fall in its market capitalisation means that it faces the humiliation of being removed next month from the DAX, Germany's main stockmarket index. To talk up the firm's share price, Michael Frenzel, TUI's boss, is resorting to desperate measures. On July 28th, TUI noted with great fanfare that Morgan Stanley had disclosed to the German bourse that it had doubled its stake in the company to 10.1%. During the following two days, TUI shares rallied—only to then resume their fall. On August 2nd, TUI announced that summer bookings in Germany rose by 2% and sales increased by 2.4% compared with last year. Its shares recovered a bit—and then jumped sharply on August 5th when the company announced better than expected results, not least in its tourism division. Yet TUI's figures only look even half-decent because they are compared with last year, one of the worst in tourism's recent history.

So why would Morgan Stanley buy a big stake in a firm that its own analysts rate negatively? The bank says it was buying on behalf of clients. There could be several reasons for this, including providing hedge funds with a way to short TUI shares. Mr Frenzel, however, is feeding rumours that Morgan Stanley is helping an unknown investor to acquire TUI. This talk may be just another attempt to lift the share price. But it is also possible that Morgan Stanley now owns almost a quarter of the firm. According to German rules, it only needs to go public again once its stake reaches 25%. A potential buyer could take control of the firm by combining the bank's stake with the 31% owned by WestLB, a German bank that owes the European Commission a big fine and so may be keen to sell. Tchibo, a coffee firm, and Oetker, a food group, are mentioned as potential suitors. Both firms dismiss these rumours, although Oetker has previously shown an interest in TUI's logistics arm, Hapag Lloyd.

TUI would be a tricky business to take over. Analysts describe its balance sheet as “not a pretty sight”. The group's debts are an estimated €3.7 billion ($4.5 billion), which the company has been planning to reduce to €2 billion by floating Hapag Lloyd on the stockmarket. But Mr Frenzel recently cast doubt on that plan.

Like Thomas Cook and MyTravel, TUI is grappling with a shift towards more independent travel. All three firms have long specialised in the sort of package holidays that millions of northern Europeans used to buy every summer. But people are increasingly putting together their own flights, hotels, car hire and other needs, often using the internet. British bookings for package holidays are down by 8% this summer. The growth of cut-price airlines has encouraged the trend: Ryanair, Europe's biggest low-cost carrier, said on August 3rd that its net profits in the second quarter were 30% higher than in the same period a year ago, reassuring sceptics who feared that the low-cost bubble had burst.

New managers might help TUI sort out its problems. Its top executives have hardly changed since Mr Frenzel transformed Preussag from a mining business into a travel firm in the late 1990s and renamed it TUI in 2002. Whatever he—or its new owners—do, they will have to do it quickly. The boss of one big online travel agent is predicting that both TUI and Thomas Cook will be replaced as Europe's market leaders by internet-based travel firms within five to seven years. Lots of others agree.

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Euro Disney

Trouble in le Royaume Magique

Aug 5th 2004 | DISNEYLAND, PARIS
From The Economist print edition

Over-expansion hurts Euro Disney

A WAIT of 35 minutes to ride in a flying Dumbo? 45 minutes to glide in Captain Hook's pirate ship? Fully two hours to see the new “Lion King” stage show? Judging by the thronging crowds at Disneyland Paris this summer, surely the park is finally making a royal profit? Not a bit of it. This week, Euro Disney, the firm that runs Europe's biggest theme park, reported yet more dismal results—and said that it had still not agreed on a rescue package with its creditors. Euro Disney's shares sank by 13% in a single day.

Heigh-ho, heigh-ho, it's in the red we go

Despite the crowds and queues, revenues at Euro Disney dropped by 1% in the nine months to the end of June from the same period in 2003, to €740m ($892m). Net losses for the full year, it says, will show a “significant increase” on the €56m loss in the year to September 2003. Worse, despite repeated extensions and waivers, the company has yet to renegotiate its €2.4 billion debt, held by Walt Disney (the American media giant that owns 39% of Euro Disney), Caisse des Dépôts et Consignations and BNP Paribas, two French banks, and various hedge funds. The company gave warning that failure to secure a deal by the end of September would mean failure to make repayments.

How can such a crowded tourist attraction be in such trouble? One difficulty is the opening in 2002 of a second park, Walt Disney Studios, just as the world theme-park business was hit by a slump in the wake of the terrorist attacks on America. Overall, the number of foreign tourists visiting France fell by 2.5% in 2003. The second park was supposed to boost visitor numbers from around 12m to 16m-18m, a level that would bring profitability. Two years and €600m of construction costs later, there are still only about 12m visitors for both parks combined. At the same time, the opening of new hotels not owned by Euro Disney—designed to accommodate all the hoped-for extra visitors—have been robbing the older Disney-owned places of guests. The group's hotel revenues have dropped by 5% in the past nine months.

Another problem may be the product. Walt Disney Studios aside, Disneyland Paris has had no big new ride for years. Nor has it managed to get people to spend enough once there. André Lacroix, who took over as boss last year, has boosted marketing and introduced new shows. Yet the park's stores and restaurants are still geared towards those who have not outgrown Winnie the Pooh. “The offer is just not that sexy,” says one former manager.

Could the difficulty also be cultural: a mix of French political anti-Americanism and elite snobbery? Here the answer is less certain. Some may sneer, but ordinary Frenchmen adore Americana. They flock to Disneyland Paris just as enthusiastically as they eat McDonald's burgers and wear Gap clothing. At the

top of the French cinema box-office are “Spider-Man 2”, “Shrek 2” and, more predictably, “Fahrenheit 9/11”. Disneyland Paris was the country's most popular attraction in 2003, according to France's tourist body, beating Notre Dame, the Sacré Coeur and the Eiffel Tower. And, in 2003, 40% of the park's visitors were French—much the same as in other years. Anti-Americanism explains much about France, but not the troubles at the Magic Kingdom.

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Advertising

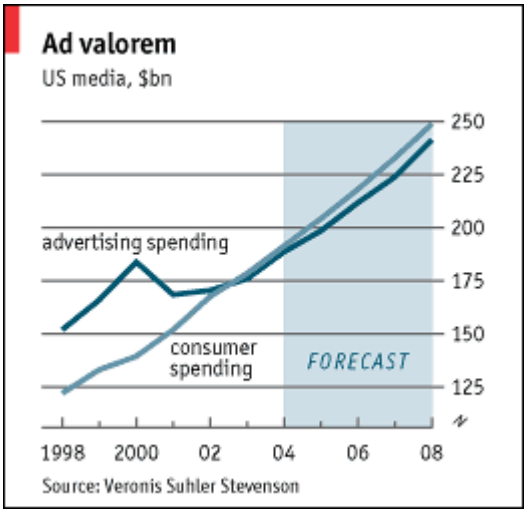
Paying to avoid ads

Aug 5th 2004
From The Economist print edition

It is getting harder to reach consumers

AS THE advertising industry recovers from the deep slump that began in 2001, it is struggling to cope with a decline in the effectiveness of some of its traditional ways of getting a message across, such as 30-second ads on network television. The problem for adland is that reading and viewing habits are changing. For the first time ever, consumer spending has overtaken advertising as the main form of revenue for American media companies.

According to a study published this week by Veronis Suhler Stevenson, a New York investment bank specialising in media, America's spending on advertising in 2003 rose by 3.2% to $176 billion. This, says the report, was primarily driven by growth in advertising on cable and satellite TV, the internet and outdoor billboards. Yet in the same period consumer spending on media—everything from DVDs to pay-TV—grew even faster, by 6.5%, to $178 billion (see chart).



The chunk of their media-consuming time that Americans devoted to media that is mostly financed by advertising, such as broadcast TV, consumer magazines and daily newspapers, shrank by seven percentage points between 1998 and 2003, to 56%. On current trends, says the bank, by 2008 consumers will spend an average of 46% of their time with media that they largely pay for, such as pay-TV, DVDs, the internet and video games. As the production costs of these forms of media are largely paid for through their sales price or subscriptions, they may contain little or no advertising.

This increases the pressure on media firms to become less dependent on ad revenues. For advertisers it means new ways have to be found to reach consumers, such as buying sponsored links in internet searches carried out on sites such as Google and Yahoo! or boosting marketing-services, such as public relations, in-store promotions, direct mail and sponsorship. Spending on such services in America last year reached $141 billion.

Wherever advertisers turn they are finding consumers harder to reach. Overall, people are spending more time with media products, but they are also using technologies that are getting better at enabling them to avoid ads, such as “pop-up” blockers in web browsers and personal video recorders that let viewers easily assemble their own TV schedules and skip commercial breaks.

On top of that, more consumers are “media multi-tasking”, says Veronis Suhler Stevenson. This is especially true of younger people, who have the ability to read, surf the internet and listen to music all at the same time. Ask anyone with an 11-year-old son or daughter.

The report adds that there is conflicting evidence about some of the changes in media consumption, not least because the differences between certain media are blurring. One example is the often-stated claim that people are spending less time reading newspapers. Perhaps this is true of their print editions, but does it take account of the time people spend looking at newspaper websites, most of whose content appears in the print edition? “It becomes difficult to theorise that the time consumers spend with the internet has increased while time spent with newspapers has decreased,” concludes the report.

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Telecom Italia

Bad connections

Aug 5th 2004 | MILAN
From The Economist print edition

The troubles of Italy's phone giant

“IN WHICH other developed country would you wait over two months for a telephone?” asks John Andrew, chairman of Eidos Partners, which last autumn had to begin its life as a boutique investment bank in Italy without a telephone line—and this despite being just 50m across Piazza Affari from the executive suites of Marco Tronchetti Provera, the boss of Telecom Italia.

The Italian phone giant insists that business users wait only seven days on average for a line. Mr Tronchetti Provera can point more plausibly to some other successes since he took command in July 2001. He has cut the workforce from 116,000 at the end of 2001 to 93,200 at the end of last year. And he has built a reputation for choosing executives wisely and letting them get on with their jobs. “The group has good managers who are focused on efficiency,” says Oriana Cardani, an analyst with Rasbank in Milan.

This is a widely held view in the financial community despite the fact that Mr Tronchetti Provera has had serious differences with many of its members. Investors squealed last year about the terms of a merger, a protest that prompted him to bring in ten independent directors, forming the majority on a board of 19. This has earned Telecom Italia a reputation as a beacon of good corporate governance in Italy—which admittedly may not mean much in a country where governance standards are notoriously low.

Some of Telecom Italia's businesses have improved. The wireline operation increased its broadband connections from just over 2m at the end of last year to almost 3m in Italy at the end of June. Its popular new products—a rapid-access menu of services and text messaging—had 1.2m subscribers at the end of June, more than twice the total at the end of March. TIM, a listed mobile arm in which Telecom Italia has a 56% stake, enjoys a reputation for smart marketing. Yet, in a mature market, the group is finding it must run increasingly hard to keep investors happy.

Since 2001, group revenues have been flat—at around €31 billion ($34 billion)—and so has its gross operating profit. On July 27th, in its interim results, the group reported profits of €7.1 billion on revenues of €15.2 billion (of which €8.7 billion was from wireline and €6.2 billion from TIM).

But Mr Tronchetti Provera is pinning many of his hopes for growth on Brazil, forever a country of the future, where Telecom Italia has now invested $6 billion. Optimists point to Brazil's young telecoms market and the fact that Pirelli, a tyre and cables group that Mr Tronchetti Provera controls, has nine factories there. Others have doubts, saying that Brazil is risky and no El Dorado. It is also a country where Cirio and Parmalat, two bankrupt Italian food groups, were involved in questionable dealings. Telecom Italia is currently in a high-profile legal wrangle there with a local telecoms company and Kroll, an international security firm.

Mr Tronchetti Provera hopes€ that the Italian telecoms group will recoup its Brazilian investment with decent returns. But that may prove to be difficult, and a lot may be at stake. Pirelli seized control of Telecom Italia three years ago through a vehicle called Olimpia. Among Pirelli's partners in Olimpia are two large banks which, in effect, have Telecom Italia's shares on their books at €5.21 per share and have a put option to sell the shares to Pirelli that they can exercise at that price in October 2006. The share price stood at €2.48 on August 2nd, despite the fact that Telecom Italia has returned €10.3 billion to shareholders in the two years to September 2003.

Not even the most bullish analyst expects Telecom Italia's share price to soon rise close to €5.21. So Olimpia is sitting on unrecognised paper losses of around €5 billion on its investment, of which Pirelli's share is half. Pirelli also has a potential liability to the banks of over €750m. When Pirelli placed its bet in

2001, Mr Tronchetti Provera said that, if Pirelli shareholders did not like his decision, they could always sell their shares. Many took his advice. Brazil is another throw of the dice. If they land badly, investors in both Telecom Italia and Pirelli will have a familiar feeling.

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Face value

Star power

Aug 5th 2004
From The Economist print edition

AP

Bonnie Fuller and the feminist case for celebrity journalism

“THEIR new love nest.” “Ben cheats on J-Lo.” “It's drugs.” “Cocaine.” The corridor to Bonnie Fuller's office is filled with headlines that scream. Some people may sneer at such headlines. Not Ms Fuller. As editorial director of American Media, she is trying to reinvigorate a company whose racy tabloids, notably the *National Enquirer*, the *Globe* and the *Star*, have suffered from years of falling circulation. Ms Fuller has a vision. Women readers, she says, have long since tired of the formula traditionally thought to attract their interest: recipes, advice, a bit of hope. What they now want is their own version of the sports pages—a vicarious thrill, at someone else's expense. They don't just want tips; they want a diversion, some fun. So she has transformed the *Star*—and is starting to change the *Enquirer*—to meet this demand and so win back the hordes of lost women readers.

Ms Fuller was hired a year ago on a contract that is possibly the most business-like of any in journalism. If she succeeds as well as she expects, her compensation, say industry reports, could reach $3m, making her probably the highest paid editor in print journalism anywhere. But such is her reputation that even if she fails, she will surely be quickly snapped up—probably, speculation suggests, by a television company, where the search for audience is also everything. Ms Fuller's previous successes include smartening up two famous women's monthlies, *Glamour* and *Cosmopolitan*—with mixed success—before triumphantly resurrecting *US Weekly*, a second-tier celebrity glossy.

At American Media, she joined a company that faced two huge challenges. One element of its editorial formula, which relied on sightings of Elvis and aliens, and outright bloodshed, had become dated. Worse still, the other element of its formula, reporting on celebrities and, perhaps even more importantly, the failings of celebrities such as Jesse Jackson (and his “love child”) and OJ Simpson (accused of murdering his wife), had become solidly mainstream journalism. The firm had lost its niche.

At the *Star*, a hitherto also-ran among supermarket tabloids, Ms Fuller's strategy has been to do celebrity journalism better than the rest (unlike rival *People* magazine, there is no space given to ordinary people). She has taken the *Star* unashamedly upmarket, emphasised getting scoops, and added a crucial twist: humour. In April, it shed its tabloid format and cheap newsprint, reappearing as a glossy mag designed to appeal to the sort of clever professional women in their mid-20s to mid-40s who have long yearned for a gossip sheet they are not embarrassed to be seen reading. In this respect it has much in common with *Heat*, the, er, hottest British magazine of the past year or so—though Ms Fuller complains that *Heat* steals the *Star*'s best ideas and lacks its emphasis on real journalism. (Other magazines copying her

formula may be the main threat to her strategy.) She likens her mission to covering the presidency; indeed, political reporters may have an easier job. She does not, she insists, pay sources for stories (though outsiders wonder if the *Star* might pay “stringers” for a story, achieving the same result). Photos are not enough. There must be a story, with genuinely new content.

The new *Star* treats celebrities as people to envy (better clothes, better dates, better sex and, inevitably, better body parts) but also, if captured from a slightly different angle, as people who are just as wretched as you. A feature called “Knifestyles of the rich and famous” compares two photos of a famous person taken a few years apart, with commentary by a plastic surgeon on the alteration. “Hey, Remember Me?” reports how stars have aged (inevitably badly). A paired feature is “Best Weekly Beauty” and “The Worst of the Week” (inevitably an ex-Weekly Beauty). Any star coming off a binge or a break-up is at risk. Big-selling issues include “Celebrity Plastic Surgery Gone Wrong, Best & Worst Beach Bodies” (lots of cellulite and fat) and (inevitably) “Celebrity Flaws”—fat, cellulite and disfigured fingers.

At its best, an issue of the *Star* under Ms Fuller, whose winning streak began with a March cover on celebs who became obese, has the magnetic appeal of the proverbial car wreck. Try as people might (and there is no reason to believe they really try), readers cannot look away. Circulation dipped a bit on Ms Fuller's arrival, but it has since grown from 800,000 last year to 1.2m and rising fast. Copies now pop up on beaches, in trading rooms, on trains—indeed everywhere but doctors' waiting rooms, from which, one can only assume, they disappear.

Yet criticisms abound. The first concerns management style. Celebrity reporting in Ms Fuller's world takes an extraordinary amount of hard work. When a celebrity goes to a drug rehabilitation clinic, or breaks up with a lover, or gets fat, Ms Fuller wants to break the news first. Stories of late closings and all-night marathons are legion. Ms Fuller goes through staff like the celebrities she covers go through lovers (see J-Lo and Britney, in every issue). An inordinate number of these career shifts end up being reported in gossip columns, because they are fed by the publicists of celebrities enraged by an unflattering item—or because those former staffers are now themselves writing for the gossip pages. There are websites devoted to Bonnie that are not kind.

Handbags and glad rags

The other criticism is that Ms Fuller appeals to the lowest common denominator. If true, this understates her talent: many others compete for this denominator with far less success. The big porn titles for men, *Playboy* and *Penthouse*, are on a long-term slide. The “lads mags”, *Maxim* and *FHM*, have, at best, plateaued as, it seems, has *Cosmopolitan*, with its singular devotion to better (and better and better) sex. In Ms Fuller's view, the *Star*'s success may reflect a growing self-confidence among women, who have progressed from wanting self-help advice to being able to find humour in the vain pursuit of perfection. Naturally some of its most avid readers, says Ms Fuller, are the stars themselves.

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Nestlé

Daring, defying, to grow

Aug 5th 2004 | VEVEY
From The Economist print edition

Despite its size, Nestlé's priority is rapid growth. But can it achieve this while it is busy trying to transform its entire business?

“WHEN you stop growing you start dying,” asserts Peter Brabeck, chief executive of Nestlé, a Swiss food and drinks group. Over the past 20 years Nestlé has grown enormously through an ambitious spending spree and by going into exotic markets. Today it dwarfs its competitors with a market capitalisation of SFr120 billion ($98 billion), and pre-tax profits of SFr11 billion last year. Mr Brabeck, who became CEO in 1997, wants Nestlé to become even larger. His goal, he says, is to lay the foundations for a big increase in the company's SFr90 billion annual sales.

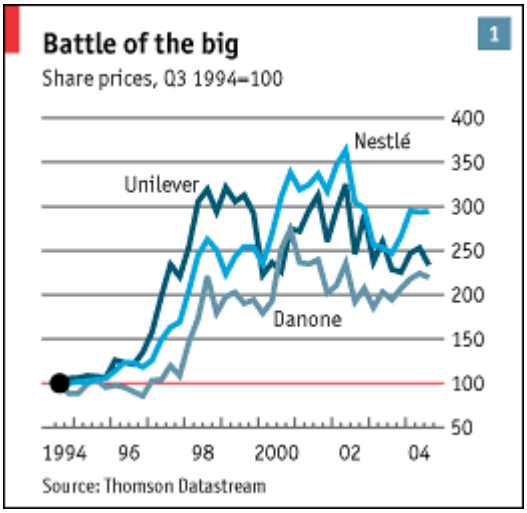
That is a tall order. In fact, the closer one looks at Nestlé, the harder the challenge appears. The company's first task is to transform its unwieldy empire into a more efficient and co-ordinated operation. Achieving that will not be easy. Meeting Mr Brabeck's ambitious growth targets at the same time will be even harder.

Mr Brabeck has one uncomfortable legacy. Mention the Nestlé name to most people and invariably they will think first of instant coffee and second of a scandal over the company's sales of baby-milk formula in poor countries that still haunts the group 30 years after it first surfaced. More recently, Nestlé scored another spectacular own-goal with a clumsily handled effort to extract payments from impoverished Ethiopia. Small wonder that some idealistic teenagers boycott Nestlé's products. Few companies are more exposed than Nestlé to reputational risks.

Yet Mr Brabeck seems much more interested in big strategic changes than in finding new ways to remedy Nestlé's tin ear to criticism or to improve its public image. Nevertheless, some of his reforms, by centralising control over specific businesses, could yet make it easier for senior managers to avoid such problems in future.

Over the past 15 years, Mr Brabeck says, many companies concluded that they could become operationally efficient by being focused. Most food firms either stayed the same size or shrank themselves in an effort to boost margins. Rival Unilever, for instance, has cut its workforce by 33,000 to 234,000 since 2000. It has also shut more than 100 factories and reduced the number of its brands from 1,600 to 400. Similarly, in October 2003 Cadbury Schweppes announced that it intended to shrink itself. The British-based maker of soft drinks and confectionery is shutting one in five of its 133 factories and cutting 10% of its 55,000 global workforce.

Nestlé, by contrast, has kept on getting bigger. It has yet to convince anyone that bigger is better. Its profit margins, for example, have lagged those of competitors such as Unilever, Danone and Heinz. And its future expansion might be at the price of even lower margins. Some analysts reckon Nestlé ought to be returning money to shareholders rather than using funds to go on growing. But others disagree. Xavier Croquez at Exane, a broker in Paris, calculates that over the past 30 years Nestlé's shares (denominated in dollars) have out-performed the S&P 100 by a factor of more than three. More recently, the firm has also outperformed rivals (see chart 1). Nestlé has not been afraid to invest in emerging markets and in new lines of business that are not immediately profitable.



Nestlé's spending spree started under Helmut Maucher, Mr Brabeck's predecessor. In 1981 Mr Maucher took over a company that was struggling after a misguided diversification into hotels and restaurants, among other things. Mr Maucher sold off or shut down unprofitable businesses, and put in place the foundations of Nestlé's present set-up. He decided to make mineral water, ice cream and pet food the group's main business lines. (Commitment to confectionery came later.)

Having cleaned up Nestlé's portfolio, Mr Maucher then hit the acquisition trail. In 1988 he bought Britain's Rowntree, maker of KitKat, Smarties and After Eight chocolates. In 1992 Nestlé took over Perrier, a French producer of mineral water. (That deal remains a problem because trade unions are still fiercely resisting a restructuring plan, so much so that on August 2nd Nestlé threatened to sell Perrier.) Mr Maucher also acquired the biggest ice-cream makers in Spain, Australia and Canada. And after he took over, Mr Brabeck carried on buying. Other ice-cream brands were snapped up. In 1997 San Pellegrino, a mineral-water company, was acquired. Four years later came the $10.3 billion purchase of Ralston Purina, an American pet-food maker, Mr Brabeck's biggest deal so far. It made Nestlé one of the world's two biggest makers of pet food—privately owned Mars of America is the other.

No change to all change

At first Mr Brabeck continued to run the firm as his predecessor had. In fact, so strong was the culture that the two men even put together an internally published list of things that should not change when Mr Brabeck took the reins. In particular, there were two “unique” features they wanted to preserve. The first was that information technology (IT) would not play much of a role in the day-to-day running of the firm—Nestlé's focus on its people, products and brands would continue to be far more influential. Second, the group would keep its commitment to decentralisation, seen as the best way to cater to local taste and to establish emotional links with clients in far-flung places.

However, after a couple of years in the job Mr Brabeck abruptly switched tack. Nestlé was becoming so uncompetitive that these sacred cows had to be dumped. According to Wolfgang Reichenberger, Nestlé's chief financial officer, management had either to come up with a new model or to split up the company.

The first thing to go was decentralisation. Nestlé started to consolidate the management of its factories in individual countries into regions and to combine the oversight of similar products in “strategic business units”. Mr Reichenberger used to run Nestlé's operations in New Zealand as a local company with four factories and very few imports and exports. Having reached the limits of local expansion he pooled Nestlé's operations in New Zealand, Australia and the Pacific Islands by consolidating accounting, administration, sales and payroll. It was not a popular decision with the Australians, he says.

In other corners of the Nestlé empire the new streamlined model did not go down well either. “People had become kings in their kingdom,” says Mr Reichenberger. Some senior managers had to be sent elsewhere in the world. Others quit.

Mr Brabeck now wants to prove that size and operational

efficiency are not mutually exclusive. “We are trying a new paradigm,” he says. But at the core of his effort lies a conundrum. Although some more focused competitors have struggled, shrunk or disappeared, others have outstripped Nestlé. Danone, a French rival that makes only water, dairy products and biscuits, is doing better than Nestlé in all three sectors, and might focus further by selling its biscuits business. So is focus in the food industry good or not?

Nor is it obvious how to run Nestlé as a coherent global business without losing the ability to adapt its products to local tastes and traditions. There is no global consumer, accepts Mr Brabeck. For instance, Nestlé produces 200 different varieties of Nescafé, its instant-coffee brand, to cater to local palates. Russians love a very thick, strong and sweet concoction of coffee, sugar and milk powder that would make western Europeans gag. KitKat in Japan comes in flavours as fancy as lemon cheesecake, utterly different from the dull combination of chocolate and wafers munched in Britain. As a rule, the simpler the wares, the more they need to be adapted to local preferences. Sophisticated products such as milk powder for premature babies, on the other hand, are the same everywhere.

Mr Brabeck has also cut costs with vigour. First he made production more regional. By closing or selling more than 150 under-performing factories, he saved more than SFr4 billion by the end of 2001. Three new programmes should bring further cost savings of some SFr6 billion by 2006. “Target 2004+”, for example, is lowering manufacturing costs. “FitNes” is supposed to slice SFr1 billion (about 1%) off administrative costs by 2006.

The most ambitious would-be efficiency booster is “Global Business Excellence”, a project known inside the firm as “Globe”. It was launched four years ago in co-operation with SAP, a German software giant. Globe is a group-wide resource-planning system. In other words, Mr Brabeck has abandoned that other sacred cow—Nestlé's aversion to IT. Globe will establish one technology platform for the group, standardise packaging codes and provide more accurate data about raw materials and stock levels.

In the zone

The project is a necessary, but risky one. At present Nestlé is still running three different versions of accounting, planning and inventory software for each of its main regions—Zone Europe, Zone Americas, and Zone Asia, Oceania and Africa. On top of that more than a dozen different systems inherited from acquisitions are making it tricky to share information across operating units. (A bag of sugar used to be identified by 50 different codes within Nestlé, says Mr Reichenberger.) Once the new resource-planning system is fully functional in 2006 or 2007, Nestlé expects a big improvement in how data is used throughout the company. It should then hack out millions in costs from its supply and distribution systems.

That will not happen overnight. But already at the regional level efforts to make Nestlé more efficient are showing results. Nestlé USA, headquartered in Glendale, California, owns such American household names as Taster's Choice, a coffee brand, and Nestlé Crunch, a candy bar. With 21,000 employees, $12 billion in sales and 42 factories across the country, it is a sizeable company in its own right. As part of an operation called “BEST”, it introduced a common IT system and standards across the group.

Before the changes, Nestlé's American factories purchased their raw materials independently. As a result, the company sometimes paid more than 20 different prices for vanilla to the same supplier. Because each factory identified vanilla with a different code, bosses in Glendale could not compare what subsidiaries were being charged. Today there is a single code and factories pay suppliers the same price.

In Asia, Oceania and Africa, country management was merged into 18 regions in the late 1990s. Until the group-wide IT system is implemented, the region is following the American example, putting in a regional IT system and common standards. Costs have been reduced, but the region has been a tough one thanks to the war in Iraq, economic woes in Japan (although the economy there is now improving), SARS and the war in western Africa. “These markets function very differently because of the political realities of the region,” says Dominique Dupont, who oversees Africa, where Nestlé remains decentralised. Country

managers remain powerful there because it is especially vital to know local tricks of the trade.

Vaulting ambition

Analysts are still sceptical about Mr Brabeck's reforms. Some say the new resource-planning system will be running by 2010 at the earliest. Others say Mr Brabeck is only doing what other bosses at many other big multinationals have done, and that he faces greater complexity than most. But Mr Brabeck is being notably ambitious: no firm of comparable complexity is making its management structure so flat.

Mr Maucher used to say in private that Nestlé is all about marketing. The company is anxiously promoting its image of Swiss solidity across the globe. A team of 30 people at the headquarters in Vevey watches over food safety and quality control at 511 factories in 86 countries. Nestlé has consumer-complaint hotlines that follow up every complaint. Every year a few products are withdrawn. For instance, Nestlé recently withdrew cans of baby food in Australia because of a mix-up over milk-powder ingredients at the factory. Such recalls can be disastrous for a food company's image and reputation.

Nestlé tries to play down the dangers of the obesity epidemic for its business, but all food producers have to reckon with marketing risk related to fear of fat and the financial risk of being sued by consumers on health grounds. In France, for instance, Nestlé's second-biggest market after America, the company was recently taken to court by UFC, a consumer group, because of alleged lies on the labels of its Vittel water bottles. UFC says Vittel is fooling consumers by selling peach-flavoured water as a calcium-enriched mineral water. Nestlé Waters says it dropped the reference to calcium in early April and claims the new bottles are marketed as water for families rather than for children.

And yet concerns about obesity and health in general are not only a threat, but a huge opportunity. As awareness of the obesity crisis is growing, Nestlé is trying to position itself as a healthier company. Mr Brabeck says that an important goal is to transform Nestlé from a food company to a “food, nutrition, health and wellness” company. He has created a new Nutrition division that brings together clinical nutrition (food for people with diabetes or a heart condition), performance nutrition (food that prevents athletes in endurance sports from keeling over) and baby food.

And Nestlé is busily selling the “new nutritional message” that food provides health benefits to people rather than making them fat. It is reformulating products, adding so-called branded active ingredients such as Calci-N, a milk-derived source of calcium that it adds to Nesquik's cocoa powder. Luis Cantarell, head of Nutrition, says he is helping to include this message across the product range. In the past five years Nestlé has introduced 600 new or reformulated products in 48 countries, adding iodine, minerals and vitamins to water, yogurt, cereals and even ice-cream.

So far, though, Nestlé has not done well with its most ambitious healthy product, a line of yogurts called LC1 that is meant to strengthen the immune system and improve digestion. Danone's rival product, Actimel, launched with a more aggressive marketing push, is doing much better. As Danone is three times the size of Nestlé in the yogurt market it can distribute its products far more widely. After a number of attempts at relaunching LC1, Nestlé has withdrawn the blue yogurt pots from several European countries.

Nestlé intends to expand its existing businesses, but will also continue to push into new markets. To do this, it is prepared to go anywhere, even Iraq or Iran, depending on the country being a market economy, the size of the population, the ability to take majority ownership of the business, the state of technology and whether the firm is welcome. Its courage is paying off. From 1999 to 2003 organic growth (ie, excluding acquisitions) was 5.1%, compared with Unilever's 2.7%. Only Pepsi and Danone had similar growth rates.

It will not be easy to get bigger by buying new businesses, however. Antitrust authorities lurk. America's Federal Trade Commission took almost a year to approve the takeover of Ralston Purina in 2001. Recent rumours that Nestlé plans to buy General Mills, a big American food company, are probably unfounded, though the two are partners in a cereal-making joint-venture. Fewer than half of General Mills's products fit into Nestlé's brand portfolio, so Nestlé would have to re-sell big chunks of General Mills.

But the truth is that Nestlé is likely to try to finish its efficiency programmes before making a big buy. And it has also to address some obvious weaknesses. Chilled dairy—industry jargon for milk and yogurt—in Europe is Nestlé's Achilles heel. Rival Danone is doing conspicuously well. But the food business is inherently tougher in a mature market such as western Europe. Mr Brabeck thinks central Europe and

especially Russia will produce better growth rates in the next few years. Another relative weakness is confectionery.

A real makeover

What about non-core businesses? Nestlé has two big ones. It owns most of Alcon, a maker of ophthalmological equipment, as well as 26% of L'Oréal, a French cosmetics giant. Alcon seems the more likely to be sold. Indeed, in 2002 Nestlé began co-operating more closely with L'Oréal via Laboratoires Innéov, a joint-venture to produce nutritional cosmetic products. Many think Nestlé will try to buy all of L'Oréal after the death of Liliane Bettencourt, the elderly owner of a controlling stake in the firm. They see the recent dissolution of Gesparal, a holding company, that transformed the Bettencourt and Nestlé shares into direct stakes in L'Oréal, as the first step towards an eventual takeover. A combination would be formidable.

But before then Mr Brabeck and his team must deliver the goods. Nestlé is one of the world's great companies. Transformed into an effective, global group with strong controls and a lean cost base it would be a powerhouse. Can it do it? Swiss efficiency and determination suggest it can. Sheer complexity and the firm's history of stubbornness argue that it is over-reaching. Mr Brabeck must hope that his legacy will be kinder to his successor than his inheritance proved to be to him.

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World trade

Now harvest it

Aug 5th 2004
From The Economist print edition

Alamy

At last, deadlock in the global trade talks has been broken

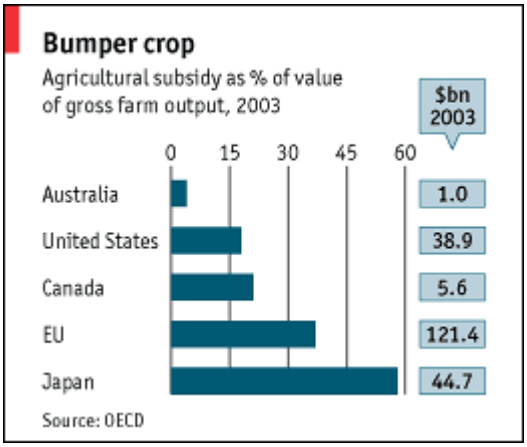
PERHAPS the imminence of summer holidays focused their minds. In Geneva on July 31st, the world's trade negotiators succeeded where they had failed in Cancún last September. Around midnight, after days of round-the-clock wrangling, the ministers knocked together a “framework” for the rest of the Doha trade round. They thus broke months of deadlock and saved the round from collapse. Bravo. But how much momentum will the Geneva deal provide?

There are reasons for optimism. One, of course, is that a deal was reached at all—no easy task in the World Trade Organisation (WTO), each of whose 147 members has a veto. The atmosphere in Geneva was far friendlier than in Cancún, where many poor countries preferred grandstanding about the inequities of globalisation to negotiation. As the leader of the G20, a group of developing countries that includes India, China and South Africa, Brazil proved a keen and capable negotiator. Its foreign minister, Celso Amorim, has become one of the pivotal figures of the Doha round, alongside Europe's trade commissioner, Pascal Lamy, and America's trade representative, Robert Zoellick. Even the G90, a group of the poorest countries, played its part, with Rwanda taking the lead: after months of stand-off, African countries cut a deal with America on cotton. The non-governmental organisations that had long incited poor countries not to budge were left ranting on the sidelines.

The big achievement in Geneva was a seven-page “framework for establishing modalities in agriculture”. Translated, that means targets and rules for negotiations on freeing farm trade. The bare bones—scrap export subsidies, cut trade-distorting domestic subsidies and reduce tariffs—were agreed on at the Doha round's launch in 2001. The Geneva deal put flesh on these. There is a commitment to eliminate export subsidies, to which the European Union only recently agreed. Equally important are promises to rein in other forms of export support, such as export credits (used by America) and state trading organisations (used by Canada).

Pushed by the G20, rich countries also agreed to deeper cuts in trade-distorting domestic subsidies. The plan is to make “substantial” cuts, with the biggest subsidisers slashing most. The rich have promised a 20% cut in the year after the Doha round comes into effect (whenever that is). This is less impressive than it sounds, because the cut applies to subsidies

allowed under WTO rules, not the actual amounts. America, for instance, spends only around half its permitted $49.1 billion. However, there may be further cuts in store. Mr Zoellick talked of cutting subsidies by 50%, if he were promised a big opening of foreign markets to American farmers.



On tariffs, the Geneva deal also promises “substantial” reductions. All countries, except the very poorest, have to make some cuts. In general, the highest tariffs must be cut by most. However, poor countries will have longer to trim their tariffs and will have leeway on some “special” farm goods. Rich countries have an escape clause too, for “sensitive” products, although they must open their markets for these goods to some degree. This fudge was needed to secure the agreement of countries such as Japan, which has an exorbitant tariff on rice.

Outside agriculture, much less of substance was agreed. There is a “framework” for freeing trade in industrial goods, which also contains a commitment to cut higher tariffs more. However, extra, watery language was added after some poor countries objected. The document now burbles on about “initial elements for future work” and the need for more talks about talks. There was little new in services trade, beyond a worthy call for more ambitious liberalisation and a new deadline—May 2005—by which to achieve it. The ministers also agreed to start new negotiations on rules for simplifying customs procedures, which in many countries add 5% or more to the cost of trade.

Grading this agreement overall is hard. Jeffrey Schott, of the Institute for International Economics in Washington, DC, says that the Geneva agreement “leaves the door open” for an ambitious Doha deal. But that is a long way from securing either an ambitious or a successful conclusion. The farm text, in particular, is welcome; yet the agreement as a whole is suffused with special treatment for poor countries. The 50 poorest are excused virtually everything. Richer developing countries have long implementation periods and plenty of exceptions. If all this special treatment restricts tariff-cutting by poor countries, it will limit the benefits of the Doha round. According to the World Bank, over half of the potential economic gains would consist of the benefits to poor countries of their own liberalisation.

Nor is it clear that the Geneva deal gives the Doha negotiations enough political momentum to reach a final agreement. The original deadline of January 1st 2005 has been discarded, and no new date has been set. A ministerial meeting in Hong Kong in December 2005 is the next big gathering. The round might be finished in 2006 or 2007. There will probably be more gridlock and missed deadlines, with the occasional breakthrough, as in all past trade rounds. The previous one, the Uruguay round, took eight years to complete.

Leaving the stage

The departure of several leading players is no help. Mr Lamy's term ends in October. His good relationship with Mr Zoellick has been an important factor in keeping the round alive. Even if George Bush wins America's presidential election in November, Mr Zoellick may well move on too. In addition, Supachai Panitchpakdi, the WTO's director-general, is due to stand down in September 2005. Much of next year will be taken up with political machinations about his successor.

Politically, the European Union is likely to remain keen on a successful completion of the Doha round. With its common agricultural policy now shifting away from production subsidies, the Doha round offers the Europeans a way to lock America into similar farm reform. The Americans' position is much less clear. Although Mr Bush's trade team has worked hard to keep Doha going, future Congresses may be less well-disposed to freer trade. And for all Mr Zoellick's talk of reform, it was Mr Bush who signed an illiberal farm bill, boosting subsidies, in 2002.

As for John Kerry, he has shown little enthusiasm for freer trade. Far from touting Doha, he has talked about tying labour and environmental standards to trade deals and has promised to review all existing trade agreements. Whoever is president must, by June 2005, ask Congress to extend his trade-promotion authority, which is needed to negotiate the Doha round. That could be a bruising battle. Doha needs American leadership. It cannot be taken for granted.

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About sponsorship

Oil

Next stop, $50?

Aug 5th 2004
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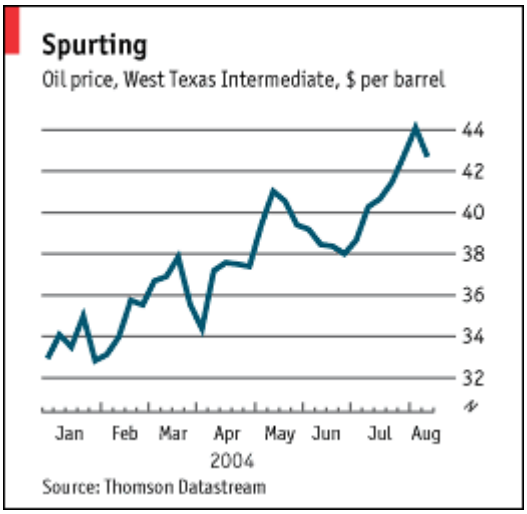
The market is frothy again

“THE oil price is very high, it's crazy.” The sentiment seems reasonable enough. After all, the price of a barrel of oil shot above $44, a record in nominal terms, on the New York Mercantile Exchange this week (see chart).



Oddly enough, the mere observation that the market was “crazy” has been one factor pushing prices higher. That is because those words were spoken on August 3rd by Purnomo Yusgiantoro, Indonesia's oil minister and the president of the Organisation of Petroleum Exporting Countries (OPEC). He stunned the markets by adding that “there is no additional supply” because the cartel lacks spare capacity. People might have already suspected that OPEC members were pumping pretty much all they could. But his words were a marked departure from the usual vague utterances of the cartel's ministers, and have had pundits thinking that supply might be even tighter than they had believed. Some worry that the price might reach $50 soon; some are talking of an oil “shock”.

Is this likely? Certainly, a further rise in oil prices is plausible. Demand for petrol remains strong, especially in America and China, despite high prices. Supply seems stretched. Usually, a few OPEC members—most notably, Saudi Arabia—keep spare capacity on hand, calling on it when prices overheat. However, in recent years their investment has not kept pace with roaring demand. So there is less spare capacity now than at almost any time for 30 years.

That points to higher prices, but not necessarily a shock. For a start, even $50 a barrel would, in inflation-adjusted terms, still be below historic peaks. Also, the American market may be loosening a little. Official data released on August 4th showed a sharp rise in gasoline inventories last week, of 2.4m barrels to 210m barrels, the highest stock in a year and a half. Experts had expected inventories to fall by 500,000 barrels. Futures prices receded on the news.

Another reason to think a shock is unlikely is the possibility that Saudi Arabia may yet have something up its sleeve. The Saudis rejected Mr Purnomo's suggestion that they had little capacity left. On August 4th, the OPEC president backtracked, saying there was some spare capacity after all, and prices eased.

The Saudis claimed that they have started pumping oil at two new fields that were not planned to come online for three months. Sceptics insist this is not ahead of schedule, but acknowledge that the new oil will more than offset declines elsewhere, especially if the Saudis manage to delay the retirement of old fields.

Therefore, the main cause for concern today lies with a force that even the Saudis may not be able to reckon with: terrorism. This week there were guerrilla attacks on Iraq's northern pipeline to Turkey. If terrorists somehow manage, as they have been trying to do in recent weeks, to strike at the heart of Saudi Arabia's oil infrastructure, the desert kingdom's output and spare capacity may be knocked out for a while. In that unlikely but frightening scenario, $50 oil would be more than a possibility. In fact, it could be a mere staging post on the way to far higher prices—and perhaps to a true oil shock.

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The New York Stock Exchange

Under threat

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Life has become precarious

FACING warnings of a possible terrorist attack (see article), the New York Stock Exchange (NYSE) opened for business on August 2nd in the presence of armed guards, a bomb-sniffing dog, and New York's mayor, governor and senior senator. A few hours later, the NYSE's chief executive, John Thain, confronted a different, but more certain, threat to the 212-year-old exchange: technological obsolescence.

EPA

Quieter times ahead

As Mr Thain acknowledged, large institutions have become increasingly critical of the exchange. All too often, transactions that can be done in a flash on an electronic exchange can take whole seconds on the NYSE, where floor trading is still the rule. This is long enough to make the market less efficient than it ought to be, and to cost the big institutions—the main buyers and sellers of shares—money.

Despite the advent of new technology and electronic exchanges, the NYSE has so far managed to keep the lion's share of trading in stocks listed on itself. A large market share means high liquidity, which in turn means the NYSE can offer cheap trading. The business penalty for slowness has been minimised by the “trade-through” rule, a regulation that forces brokers to allow the exchange time to find the best price. However, as Mr Thain clearly realises, this is a fragile foundation. The trade-through rule will soon be loosened, if not eliminated. If some big traders decided to defect to electronic rivals, the NYSE's advantage could crumble quickly.

Mr Thain therefore plans to take much of the trading in popular stocks on behalf of big institutions out of the hands of “specialists”, the handful of firms that carry out most trades on the exchange. The NYSE's biggest customers will be free to use an existing electronic system, which was previously reserved for small orders, instead. Mr Thain has sent his proposal to the Securities and Exchange Commission. Its approval will take six months to a year, but is almost certain.

In the short term, this promises to be painful for the exchange's members. Tighter and faster pricing of securities will squeeze the revenues now captured by floor traders. In one way, the exchange may become less efficient: valuable information will no longer be found in the manic yells that convey orders to trading posts. The souring outlook is plain from the prices of seats on the exchange. In mid-June, one changed hands for $1.51m. In early July, another fetched $1.4m. The next went for $1.25m on August 3rd. The price of shares in LaBranche, the largest specialist firm, has fallen from $50 to $8 in the past three years. Asked this week about the prospect of a public offering for the NYSE, Mr Thain replied that it

could not happen until its business model and growth prospects became evident. That, say lots of outside critics, will be never.

Nonetheless, Mr Thain's willingness to act is a cause for optimism. Ignoring the electronic threat would surely be suicidal. Under Mr Thain's predecessor, Richard Grasso, the NYSE became too comfortable in its role as the dominant market for equities. Whereas in the mid-1990s it was unequivocally the most efficient market in the world, by the time Mr Grasso was forced out in 2003 after exhausting even Wall Street's tolerance for greed, this was questionable. Ultimately, Mr Grasso's efforts to protect the floor traders—and secure a gigantic pay package for himself—could only be sustained in an industry with unique products and high barriers to entry. Share trading ceased to be like that long ago. Mr Grasso's departure may have saved the institution that employed him.

Mr Thain's proposed reform will at least give the exchange the chance to keep pricing keenly, and thus to maintain its market share and liquidity. It will also preserve for the NYSE whatever floor trading remains, so that the informational advantages of human contact will not vanish. Inevitably, several large institutions would like reform to go further. This is partly for good reasons: they have an interest in a more efficient market. It might also be for bad ones: in a world with no dominant exchange, a few big buyers and sellers of shares might hope to capture the quasi-monopolistic advantages that the NYSE's specialists once enjoyed. Mr Thain might never make these institutions truly happy, but he can at least stop them killing his exchange. For now.

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About sponsorship

Japanese banks

Question of trust

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From The Economist print edition

Why does everyone want to marry the hapless UFJ?

THE fate of UFJ Holdings, smallest, weakest and worst-run of Japan's four giant banks, is developing along unusual lines. Unusual for Japan, that is. Its merger plans are being contested—through a rival approach as well as the courts—and regulators are staying largely out of the way.

On July 30th Sumitomo Mitsui Financial Group (SMFG), the country's third-biggest bank, suggested that it could offer UFJ a better arrangement than Mitsubishi Tokyo Financial Group (MTFG), with which UFJ began planning a merger earlier in the month. UFJ refused to discuss the idea; its disregard for shareholders shows that not everything in Japan has changed. Still, it is remarkable that SMFG made its public, impolite request at all, even if it has not yet made a formal hostile offer.

In the courts, Sumitomo Trust & Banking (which is unaffiliated with SMFG, although both have ties with other firms in the Sumitomo industrial group) is hoping that a Tokyo high court will trip up UFJ and MTFG on their way to the altar by upholding a district court's injunction against including UFJ's trust bank in any merger talks. UFJ had agreed in May to sell its trust bank, which manages corporate-pension funds and other assets, to Sumitomo Trust for ¥300 billion ($2.8 billion).

All of this has complicated an engagement that was well received when it was announced. The merger would strengthen UFJ, which is in terrible shape: instead of working hard to whittle down bad loans, as MTFG did, it kept two sets of books and lied to regulators. In return for recapitalising the weakling, MTFG would gain an edge in retail and small-business banking, where SMFG and Japan's other mega-bank, Mizuho, have done more. Most analysts reckon that Japanese banks must expand in this area, given weak demand and thin margins for corporate loans. This year SMFG has bought a stake in Promise, a consumer-lending firm, while MTFG has increased its holding in Acom, another. Mizuho has said it will co-operate with Credit Saison, Japan's biggest credit-card issuer.

As well as UFJ's retail business, MTFG also has its eye on its bride's trust bank. Sumitomo Trust, however, has other ideas. It is Japan's second-biggest trust bank, handling ¥52 trillion of corporate-pension and other trust assets trailing closely the trust-banking unit of MTFG, which would gain a huge size advantage if a complete merger with UFJ went ahead. Sumitomo Trust is thus hoping the courts will force UFJ to keep its trust bank out of any deal. Without the trust bank, SMFG would prefer to buy UFJ's remaining businesses than to leave them to MTFG.

For all the confusion this week, however, the scramble for UFJ is an important sign of progress among Japan's biggest banks. Once the bank merges with a bigger rival, none of Japan's remaining three mega-banks will be stuck with the low capital ratios that have hobbled them over the past few years. That will free regulators to focus more on regional banks, which are in worse shape on average (they range from the decent to the dire). A law that went into effect on August 1st will make it easier to inject capital into weak regional banks, and the government has set aside ¥2 trillion for this in the year to next March.

Although higher profits among small businesses have helped regional lenders, they have not recovered as quickly as the remaining national banks. The regionals have higher bad-loan ratios than nationals and are less efficient. A much lower share of their business comes from non-interest sources, such as fees (see table).

Health check

Japanese bank statistics, March 31st 2004

	Number	Total assets, ¥trn	Non-performing loans*	Expense ratio, %	Non-interest income†
Major banks	**14**	**473.3‡**	**5.1**	**46.3**	**33.0**
Mizuho	-	137.8	4.8	-	49.3
MTFG	-	109.3	3.1	-	44.5
SMFG	-	102.2	5.6	-	55.2
UFJ	-	82.1	8.5	-	61.8
Regional banks	**114**	**265.1‡**	**6.9**	**62.3**	**10.7**

Sources: Bank of Japan; *The Bonker*; company statistics

*As % of assets †As % of revenues ‡As of September 30th 2003

Since capital injections should make it easier for some of these banks to merge and write off bad loans, the new law is, on the whole, welcome. But while the government will force banks to meet targets for profitability, it also wants them to increase small-business lending. In many instances, these two goals are at odds. It would be better if regulators simply encouraged the regional banks to seek profits, as their merger-happy big brethren have begun to do, and refrained from using them to promote other objectives. However, even a half-decent idea makes a welcome change.

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About sponsorship

Parmalat

Beware of Bondi

Aug 5th 2004
From The Economist print edition

The dairy group's administrator is going after the world's top banks

AS A global bank, Citigroup is used to being sued—it is an accepted part of doing business. But a lawsuit that demands $10 billion and alleges that the bank knowingly defrauded shareholders of a big corporate customer? That does not happen every day. So it might have been expected that the suit filed in New Jersey on July 29th by Parmalat, an Italian dairy group that went spectacularly bust at the end of last year, would prompt Citi's top brass to come out fighting.

In the event Citi's response was muted: having reviewed the lawsuit, the bank commented briefly that it was “without merit” and riddled with factual errors, adding that it had written off large sums as a result of Parmalat's default. Big banks in general have kept remarkably quiet since Parmalat went bust. Yet several of them were closely connected to the mechanisms by which Parmalat made €14 billion ($17 billion) disappear. Enrico Bondi, the turnaround artist who has been trying to rescue a going concern from the wreckage caused by the Tanzi family that owned Parmalat, has the banks firmly in his sights.

Mr Bondi is on something of a roll. He seems to have convinced Parmalat's motley creditors that they are best off leaving him to try to get their money back. Last week America's Securities and Exchange Commission quietly announced that it had settled its civil action against Parmalat. Despite reiterating its belief that Parmalat had engaged in “one of the largest financial frauds in history” the SEC levied no fine, demanding only that Mr Bondi put in place governance reforms that he had already proposed. That was seen by some observers as tacit support for Mr Bondi's efforts to seek restitution from the banks.

Mr Bondi has also won support from the Italian government. In June he sent a 30-page report to Italy's industry minister in which he set out what he saw as the causes of Parmalat's bankruptcy. The report, which was recently made public by magistrates in Milan, has attracted little notice. But it makes interesting reading. It reveals Mr Bondi's belief that there was widespread knowledge of the fact that Parmalat's financial statements had been nonsense for years.

According to the report, even a back-of-the-envelope analysis using “central risk” data published by the Bank of Italy and debt-issuance figures reported by Bloomberg, a financial-information provider, should have been enough to alert people that Parmalat was in trouble. Yet regulators (such as Consob, which regulates Italy's stockmarket) and sophisticated financial institutions not only failed to spot the trouble, but also let it get worse, overseeing a spiral of debt issuance and off-balance-sheet deals that allowed Parmalat to keep up its pretence.

Therein lies the essence of Mr Bondi's case against the banks. Even the limited detail in the lawsuit is embarrassing for Citigroup. It describes transactions whose only apparent economic purpose was to massage Parmalat's reported numbers. It recalls that one of Citi's relationship managers became Parmalat's chief financial officer in 1997. And it gives new detail on specific deals, notably the now infamous *Buconero* (“black hole”) transaction that was set up in 1999 and from which Citigroup reaped millions in fees. All this in a preliminary filing.

Parmalat is expected to launch several similar lawsuits soon. The first could come within a few days. Targets include J.P. Morgan Chase, Credit Suisse First Boston, Deutsche Bank and, biggest of all, Bank of America, which was involved in some of the most curious of all Parmalat's deals, notably with its Bonlat subsidiary from which €4 billion went missing. Like Citi, BofA faces big reputational risks as more details come to light.

Mr Bondi might not be around to see the end of his lawsuits; he will probably leave Parmalat once the group is back on its feet. But he is doing former shareholders and creditors a big favour. They might

even get some of their money back.

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Economics focus

Development piecemeal

Aug 5th 2004
From The Economist print edition

Small policy changes, not upheaval, may be the trigger of economic growth

OVER the past 15 years or so, economists have developed a long list of now-familiar remedies for developing countries hoping to grow their way to prosperity. This "Washington Consensus" includes the removal of trade protection and the introduction of deregulation, as well as fiscal and monetary discipline. And these are just for starters. The trouble is that many governments find it almost impossible to stick to these prescriptions. Meanwhile, other economists have suggested that development depends not on specific policies but on "institutional" factors, such as a respect for property rights, which constrain the powers of the state. This can sound like a counsel of despair, because such institutions and customs can take many years, even centuries, to become established.

However, two new studies suggest that there is no need to be so gloomy. They argue that institutional overhaul and broad economic reforms are not necessary to spur economic growth. In fact, quantitative evidence that they do so is surprisingly difficult to find. Smaller policy changes may serve just as well, and pave the way for later reforms of institutions.

In one of these papers*, Edward Glaeser, a Harvard economist, and three co-authors question several prominent studies that treat institutions as a wellspring of development (including those discussed in this column in the issue of October 5th 2002). Mr Glaeser and his colleagues point out a problem with theories stressing the importance of institutional reform: it is fiendishly hard to find a quantitative measure for institutional quality that can be plugged into a statistical model explaining economic growth. They show that the measures typically used in such studies—such as "risk of expropriation" or "government effectiveness", which are often based on investor surveys—merely reflect the result of governments' behaviour, not of reasonably permanent and durable institutional features, such as the protection of property rights and contracts. Indeed, in some countries, such as Argentina, the standard indices of "institutions" fluctuate wildly with the electoral cycle. Sometimes a dictator chooses to secure property rights without enshrining it in the rules, as in South Korea until the 1980s; sometimes he does not. The authors find that "there is no relationship between growth and constitutional measures of institutions."

This is not to say that guaranteed rules of the game are unimportant in sustaining growth, as opposed to sparking it. However, countries tend to escape poverty in the first place through good policies. Only then do they go on to improve their institutions, the authors argue. Andrei Shleifer, one of the researchers, points to China. The policies introduced by Deng Xiaoping from 1978 led to economic growth and the emergence of a vibrant middle class, which in turn demanded formal guarantees, such as this year's constitutional amendment defining property rights as "inviolable". The point is that institutional reforms came after the policies that fostered growth; they did not precede it.

Reform something, anything

So what does cause growth to take off? Another recent study† finds that the spark can be a surprisingly small change in policy. The researchers, at Harvard's Kennedy School of Government, looked at 83 instances between 1957 and 1992 in which annual GDP growth increased by at least two percentage points and the higher growth was sustained for at least eight years.

These bursts of growth were not normally preceded by a big shift in policy, or by full-blown economic and political reforms—such as liberalisation or a move towards democracy. This is something the authors are at a loss to explain. Financial liberalisation does help stimulate growth for a while. More investment and

exports and a competitive real exchange rate can also give a temporary boost. And positive external shocks (such as a rise in the price of an exported commodity) tend to hasten growth that quickly fizzles out.

What struck the authors was the humble nature of the initial triggers of growth. These usually consist of nothing more than relaxing specific constraints on private activity. In South Korea in 1964, devaluation and an increase in interest rates overseen by the dictatorship of General Park Chung Hee brought the returns to private investment closer into line with those to the economy as a whole. In 1983, General Augusto Pinochet pulled the same trick in Chile. In China in 1978, the ruling party introduced market-oriented incentives. In India in 1980, Indira Gandhi removed shackles from enterprises and began sending pro-business signals, a decade before more formal reforms (although there is a hot debate about which set of policies mattered most). Policymakers, say the authors, have merely to identify the relevant constraints. “Instigating growth is a lot easier in practice than the standard Washington recipe, with its long list of institutional and governance reforms, would lead us to believe,” writes Dani Rodrik, one of the authors, in a separate article‡.

However, grander reforms do seem to be correlated with take-offs in growth that are sustained over a longer period, of 15 years or more. This suggests that big reforms are not needed to start growth, but they are a great help in keeping it going. And at the outset an awful lot still comes down to luck. “There was nothing inevitable about Deng [Xiaoping],” Mr Shleifer says. “It just so happened that they [the Chinese] picked a dictator who decided to give some protection to property rights.” Hopefully China has now moved too far in the direction of a market economy for some new leader abruptly to change his mind.

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* “Do institutions cause growth?” by Edward Glaeser, Rafael La Porta, Florencio Lopez-de-Silanes and Andrei Shleifer. NBER Working Paper No. 10568.

† “Growth accelerations” by Ricardo Hausmann, Lant Pritchett and Dani Rodrik. NBER Working Paper No. 10566.

‡ “Getting institutions right”. CESifo DICE Report, Summer 2004

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About sponsorship

Scientific publishing

Access all areas

Aug 5th 2004
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Scientific publishing is having to change rapidly to respond to growing pressure for free access to published research

IN A letter penned in 1676, Isaac Newton famously wrote, “If I have seen further it is by standing on the shoulders of Giants.” Although it is debatable whether Newton was being modest or making a barbed comment towards his correspondent (a competitor of short stature) the phrase epitomises views of how science progresses—with the speedy and open publishing of discoveries so that others may make use of them to push back the frontiers of human understanding.

For centuries, printed journals destined for university libraries have been the focus of this publishing activity. The winds of change, though, are sweeping through these quiet and dusty corridors. Because of the internet, cost and distance are no longer barriers to providing the results of research to more than just a restricted and privileged few. This is leading people to ask why those results are not, in fact, freely available to all.

An impressive industry has built itself around the dissemination of academic research—particularly scientific work. There are over 2,000 publishers in what is called STM (scientific, technological and medical) publishing alone. Together, they publish 1.2m articles a year in about 16,000 periodical journals. It is a huge success. Not everyone, though, is entirely satisfied. Academics, universities and governments are worried that publishers have grown a little too fat and happy.

Serial killers

The problem is one of monopoly. Of course, publishing itself is an industry with few barriers to entry. That is not the issue. But certain journals are able to capture a lion's share of the important papers because researchers want their papers published in the most prestigious ones. Some titles have acquired exceptional cachet over the years. Such is their prestige that a researcher can win tenure, promotion or a research grant on the basis of a single article in the right publication.

That means the publishers of those journals have the pick of the best papers, reinforcing their reputations in a positive feedback loop. They also claim copyright over what they publish, reinforcing

their monopoly. So if you want to read an important paper (or an unimportant one for that matter) you have no legal choice but to pay the publisher for it.

The upshot is that university libraries must purchase the leading titles, almost whatever their price, and often at the expense of carrying less-exalted works. Owning a prestigious journal has thus become a lucrative business, which many people believe is being abused.

Cornell University, for example, recently reviewed its policies on journal acquisition. In the course of that review it noted that between 1986 and 2001 the library budget at its main campus in Ithaca, New York, increased by 149%. The number of periodicals purchased, however, grew by only 5%.

Governments, whose funds ultimately pay for a lot of the journals on the shelves of university libraries, are noticing too. A report published in July by Britain's House of Commons Science and Technology Committee found that the average price of an academic journal in Britain rose by 58% between 1998 and 2003, while the retail price index rose by 11% in that period, and scientific output rose by 20%. The report added that profits in the industry were exceptional, singling out Reed Elsevier, a British publisher whose Dutch subsidiary, Elsevier, is the market leader in STM publishing, for having profits “as much as 34% at the operating level”.

Indeed, Elsevier has attracted criticism from a number of quarters. Cornell's reviewers, for example, observed that in the previous decade Elsevier's annual price increases on its titles had often been over 10%—and occasionally over 20%.

Arie Jongejan, CEO of Elsevier's science and technology division, defends his firm's profits, pointing out that after tax and depreciation, last year's profit margins were 17%, not as high as some claim. But that is still a hefty whack. He justifies such margins on the grounds that the firm's journals are publishing more papers each year and also because high profitability is necessary in order to ensure the sustainability of those journals.

Free for all?

But the dominance of Elsevier and its kin is under attack. The House of Commons Science and Technology Committee did more than just lament the rising price of journals. It told the British government that the country's universities should be required to ensure that all their research papers are available free online, and that government-funded research grants ought to include free access to the findings a condition of the awards. The government will respond next month.

American politicians, too, are getting cross. Earlier this month the House of Representatives' Committee on Appropriations approved a provision in a bill that backs open access to material published by the National Institutes of Health (NIH). The committee expressed concern at the lack of public access to research findings, and at the rising price of journals. These, it commented, were “contrary to the best interests of the US taxpayers who paid for this research”.

If the Senate approves the recommendation, it will become law and the NIH will be required to deposit research funded by the agency into an online government archive called PubMed Central within six months of publication in any journal. If this happens, it will be significant, since NIH-funded work amounts to 50,000 papers a year.

Even mainland Europe is getting in on the act. In October 2003, the leading research associations of Germany, France and Switzerland signed what has become known as the “Berlin Declaration”—another call for free access to research findings. One of the groups behind the declaration, Germany's Max Planck Society, is now changing its employment contracts to require staff to return the copyright of their work to the society. At the moment it gets assigned to the publishers. Although the society's researchers will still be able to publish in journals, their work must eventually be put into an online repository.

In response to the Berlin Declaration, the European Commission has begun a study of the scientific-publishing market—looking at price, access to published papers, and copyright. Because 41% of scientific papers originate in Europe (compared with 31% in America), the results of this study could have a big effect on the publishing industry.

One way of addressing the concerns of politicians and university libraries is the promotion of journals in

which the author pays to be published. Many new online journals are attempting to do this, using electronic publication to cut their costs. The results are then made available free to readers.

BioMed Central, based in Britain, is one such publisher. The company, which was established in 1999, has not yet broken even. But Deborah Cockerill, the firm's assistant publisher, says it is likely to do so soon, as it is growing fast. The number of articles it publishes has doubled every year. In America, a not-for-profit organisation called the Public Library of Science is employing a similar business model.

Another possibility is to generalise the House of Representatives' proposal for American medical research and allow the traditional journals a limited period of monopoly—say six months—after which they have to make all taxpayer-funded content available free online.

Understandably, the traditional publishers are not too happy about these ideas, although some of them are moving pre-emptively towards the free-after-six-months model of the future. Barbara Meredith, vice-president of professional and scholarly publishing at the Association of American Publishers, a trade group, has said that a demand for open access to research findings could undermine the sustainability of the publishing industry, and has promised to lobby vigorously against this happening.

At the moment, the entire open access literature is tiny—less than 1% of what is published according to the Public Library of Science. But if governments were to insist that the results of research they fund must be published in an open-access way, that would change completely. The days of huge profits would then be numbered. Prestige has its uses—and the open-access journals will, no doubt, establish a pecking-order among themselves fairly quickly. But for prestige at any price, time is probably up.

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Archaeology

Seeds of change

Aug 5th 2004
From The Economist print edition

Cereals have been part of the human diet for at least 23,000 years

THE shift from the nomadic, hunter-gatherer lifestyle to a settled existence based on agriculture was mankind's first step on the path towards the modern world. The transition was anything but sudden, however. People had to learn how to gather and process wild cereal grains before they began cultivating them deliberately, around 10,000 years ago.

Exactly when cereal grains first became part of the human diet is uncertain. Stone implements dating back as far as 45,000 years may have been used to grind cereal grains, but there is no way to know for sure, since no associated plant remains survive. Evidence for the widespread storage and processing of cereal grains only appears in the “fertile crescent”—the region of the Middle East where agriculture first emerged—around 12,000 years ago.

That is what makes a new result from an Israeli site called Ohalo II so unusual. Ohalo II was a settlement on the shore of the Sea of Galilee that was inhabited around 23,000 years ago and was discovered in 1989. It is normally submerged beneath two or three metres of water, but is exposed in dry years when the water level drops. Conditions at the site are unusually favourable for the preservation of plant materials. Archaeologists have found the remains of a hunter-gatherer camp, including six brush huts—the oldest ever found—several open-air hearths and a human grave. And a team led by Dolores Piperno of the Smithsonian Institution and Ehud Weiss of the Peabody Museum at Harvard University has just announced that they have found evidence of cereal grinding at the site. Their findings are published this week in *Nature*.

A few years ago a large, flat basalt stone was found in the remains of one of the huts, surrounded by seeds. Dr Piperno, Dr Weiss and their colleagues have now extracted starch-grain residue from this stone. Using a microscope, they then compared the residue with samples from the Smithsonian's reference collection of plant species. They found that the residue in the stone consisted mainly of grass seeds, including wild barley and emmer wheat. This means the stone was used to grind cereal grains to prepare them for consumption, probably in the form of a thick porridge or gruel. The researchers believe that an arrangement of burned stones found at Ohalo II was used as an oven: thick porridge or dough could have been spread out on the heated stones and baked into flatbread.

These findings are the earliest direct evidence for the human consumption of cereal grains, and show that they were being eaten at least 12,000 years before the advent of farming in one spot of the fertile crescent. The switch from hunting and gathering to farming may have been, in other words, even more gradual than was previously thought.

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Autism

Making the connection

Aug 5th 2004
From The Economist print edition

For the first time, researchers have shown a biological basis for autism

IT MIGHT take only the touch of peach fuzz to make an autistic child howl in pain. The odour of the fruit could be so overpowering that he gags. For reasons that are not well understood, people with autism do not integrate all of their senses in ways that help them understand properly what they are experiencing. By the age of three, the signs of autism—infrequent eye contact, over-sensitivity or under-sensitivity to the environment, difficulty mixing with others—are in full force. There is no cure; intense behavioural therapies serve only to lessen the symptoms.

The origins of autism are obscure. But a paper in *Brain,* a specialist journal, casts some light. A team headed by Marcel Just, of Carnegie Mellon University, and Nancy Minshew, of the University of Pittsburgh, has found evidence of how the brains of people with autism function differently from those without the disorder.

Using a brain-scanning technique called functional magnetic-resonance imaging (fMRI), Dr Just, Dr Minshew and their team compared the brain activity of young adults who had “high-functioning” autism (in which an autist's IQ score is normal) with that of non-autistic participants. The experiment was designed to examine two regions of the brain known to be associated with language—Broca's area and Wernicke's area—when the participants were reading.

Three differences emerged. First, Wernicke's area, the part responsible for understanding individual words, was more active in autists than non-autists. Second, Broca's area—where the components of language are integrated to produce meaning—was less active. Third, the activity of the two areas was less synchronised.

This research has led Dr Just to offer an explanation for autism. He calls it “underconnectivity theory”. It depends on a recent body of work which suggests that the brain's white matter (the wiring that connects the main bodies of the nerve cells, or grey matter, together) is less dense and less abundant in the brain of an autistic person than in that of a non-autist. Dr Just suggests that abnormal white matter causes the grey matter to adapt to the resulting lack of communication. This hones some regions to levels of superior ability, while others fall by the wayside.

The team chose to examine Broca's and Wernicke's areas because language-based experiments are easy to conduct. But if the underconnectivity theory applies to the rest of the brain, too, it would be less of a mystery why some people with autism are hypersensitive to their environments, and others are able to do certain tasks, such as arithmetic, so well. And if it is true that underconnectivity is indeed the main problem, then treatments might be developed to stimulate the growth of the white-matter wiring.

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Detecting heat

Beetle drive

Aug 5th 2004
From The Economist print edition

A biologically inspired heat detector

NOT many creatures rush towards forest fires, but the jewel beetle is an exception. Jewel beetles lay their eggs in the bark of smouldering trees. Such a habitat may seem harsh, but from the beetle's point of view it is safe from predators, competition and the deadly sap of living trees. Forest fires, though, occur unpredictably, so the beetle needs a way of locating them from a distance. Fortunately, evolution has provided it with one—a heat-detector that can sense a fire from a distance of 80km (50 miles).

That fact was sufficiently impressive to Helmut Schmitz, of the University of Bonn, in Germany, for him to study the jewel beetle's heat detector with a view to building something similar artificially. And that is what he and his colleague Martin Müller have now done.

Jewel beetles detect fires using receptors called sensilla. These, in turn, are stimulated by the expansion of tiny spheres of a material called cuticula. This material preferentially absorbs, and is thus heated and expanded by, infra-red radiation with a wavelength of three microns (millionths of a metre). That is the main wavelength of the infra-red radiation emitted by fierce forest fires.

Dr Schmitz and Dr Müller have constructed a prototype artificial version of this sensor using tiny plates of polyethylene instead of cuticula. Polyethylene responds to the same wavelength as cuticula and expands similarly in response. That expansion tweaks a tiny piezoelectric crystal in a way similar to a sphere of cuticula tweaking a sensillum. When squeezed, piezoelectric materials produce a small electric current which can then be used to raise the alarm.

The benefits of Dr Schmitz's biologically inspired sensor are that it would be cheap to manufacture, easy to maintain and could withstand harsh environments. Most commercially available heat sensors need to be cooled, but the sensor based on the beetle works even at high ambient temperatures.

Dr Schmitz has not yet been able to duplicate the sensitivity of the beetle, but he says his simple prototype is merely the first step. The next ones are to miniaturise the sensor's components to make them faster and more sensitive, and to improve the amplification of the signal. Small, light, infra-red sensors would be a boon to medical science, the emergency services, the armed forces and the police. Dr Schmitz believes that a commercial product could be available within two years.

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About sponsorship

Henri Cartier-Bresson

Kingdoms of the world in a moment

Aug 5th 2004
From The Economist print edition

Magnum

Henri Cartier-Bresson, whose photographs defined the 20th century, died on August 3rd at the age of 95

ALTHOUGH his name was familiar almost everywhere, far more so indeed than his work, Henri Cartier-Bresson himself was not a familiar sight. With his alert blue eyes and a coloured handkerchief knotted round his neck, he would wander the streets near his home on Paris's rue de Rivoli and seldom be recognised. One of the greatest photographers of the 20th century was himself rarely photographed.

In his lifetime, he travelled to all corners of the earth, capturing images of some of the most extraordinary moments of 20th-century history—the Spanish civil war, the liberation of Paris after the second world war and the funeral of Mahatma Gandhi. At the same time he framed and preserved less famous moments, elevating them with his genius so that they somehow seemed to capture the essence of life itself.

His unequalled ability to seize a millisecond in time was uncanny. In his book “The Decisive Moment”, published in 1952, he wrote: “It is the simultaneous recognition, in a fraction of a second, of the significance of an event as well as a precise organisation of forms, which give that event its proper expression.” He was never very interested in the technology of photography, in the effects that could be obtained during developing and editing in a dark room. It was all about the thrill of the chase, the chance to seize a moment.

The man who first inspired Mr Cartier-Bresson was a photographer called Martin Munkacsi, whose picture of naked African boys running into Lake Tanganyika in 1931 persuaded him to take photography seriously. “I couldn't believe that such a thing could be caught on camera,” he said, “so I grabbed my Leica and went out into the street.”

Between 1932 and 1935, he lived rough in Italy, Mexico and Spain where he took some of his most memorable images. Back in Paris he worked with Jean Renoir, a film director, and ended up playing the unlikely role of an English servant in the director's masterpiece, “La Règle du Jeu”. He was a prisoner-of-war for three years, and after the war was one of the founders of the Magnum agency, a trail-blazing photographers' co-operative. In 1948 he went on the road again, mostly to India and China (in time for the fall of Chiang Kai-shek), in an age when the images of photojournalists like him filled the pages of

picture magazines that were, in the pre-television era, hungrily viewed by millions.

Unassuming genius

For the last quarter of a century, Mr Cartier-Bresson eschewed photography, taking only the occasional snapshot of friends and family, and turning his attention to drawing. (He trained originally as a painter, his early work influenced by his friend, the surrealist artist Max Ernst.) He maintained that he scarcely wanted to discuss photography any more. “It's like when you're divorced”, he said, “and people keep asking about your former wife. There's something indecent about it.”

He settled into a quiet life in France—in Paris and in the small house that he owned for some 30 years in the Lubéron, a region in the south of the country, to the east of Avignon. And there he died on Tuesday August 3rd, just less than three weeks away from his 96th birthday.

Mr Cartier-Bresson always said that to be a great photographer you had to be unintrusive. “For me, photography is very much a physical pleasure—it's like hunting, except that we don't kill.” At the height of his career he would stalk his subjects, and his quarry would often be unaware that it had been captured on film. His desire to remain out of the limelight stayed with him to the end, including his wish to hold back the world's photographers from the funeral of one of the greatest of them.

His funeral was a private affair attended by some 50 family and close friends. Only after it had ended did the French Ministry of Culture make an official announcement of his death. And the next day, August 5th, many of his most famous images were splashed across the front pages of newspapers the world over: a woman slapping an informer she recognises at a deportation camp in Dessau in 1945; Muslim women in Srinagar, Kashmir, praying to the sun as it rises over the distant Himalayas; and a French family picnicking by the River Marne in 1938, almost a last pre-war moment of stillness.

Of Mr Cartier-Bresson's death, President Jacques Chirac said: “With him, France loses a genius photographer, a true master, and one of the most gifted artists of his generation.” But it is not only France's loss. Mr Cartier-Bresson's fame, which grew despite his efforts to avoid it, reminds a much wider world of its persistent admiration for unassuming genius, and of the dwindling stock of targets for that admiration.

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About sponsorship

Christie's and Sotheby's

What an art

Aug 5th 2004
From The Economist print edition

ADAM SMITH noted that businessmen will try to collude whenever they are given the chance. Antitrust regulators attempting to frustrate them have always been bedevilled by two problems. First, collusion is darned difficult to prove. For instance, investment-banking commissions might be suspiciously similar, but is that due to conspiracy, coincidence or perfect competition? Second, antitrust is usually extremely boring. Reports of price-fixing in the synthetic-adhesives industry tend to slip to the inside pages, even when the amount of money that it allows firms to steal from their customers is gigantic.

So Christopher Mason's "The Art of the Steal" is a rare beast—a genuine antitrust thriller, a gripping yarn of real-life collusion that is spiced up with Picassos, class warfare, art-market bitchiness and the rather unsettling conclusion that some well-heeled villains got away with it. The background is a price-fixing scandal at Christie's and Sotheby's which ended up with the latter's nouveau-riche owner, Alfred Taubman, being sent to jail for ten months in 2002. It is hard to feel sorry for someone who was served a meal of hotdogs and caviar by his butler on his private jet as he headed to the penitentiary. But was he really the great conspirator? Mr Mason, who conducted more than 2,400 interviews for his book, gives each of the main characters plenty of room to make their case. He plainly feels that Mr Taubman, while hardly innocent, nevertheless got a raw deal.

The Art of the Steal: Inside the Sotheby's-Christie's Auction House Scandal
By Christopher Mason

Putnam; 406 pages; $26.95

Buy it at
Amazon.com
Amazon.co.uk

The central crime is not in dispute. In the mid-1990s the world's two leading auction houses, which control 90% of the sales of the major works of art, conspired to raise commission rates, with their two chief executives, Christopher Davidge (of Christie's) and Diana Brooks (of Sotheby's) holding lengthy secretive meetings. Suspicious about their price hikes, the American authorities launched a somewhat half-hearted antitrust investigation. Just as it seemed to be fizzling out in 2000, Mr Davidge delivered some 600 pages of documents laying out the conspiracy and securing an amnesty; Christie's then did a deal with the antitrust authorities implicating Sotheby's. Ms Brooks then shopped Mr Taubman, and the two firms had to pay a joint $512m settlement to the clients they had bilked.

What is in dispute is who told whom to do what when. The two bosses, Mr Davidge and Ms Brooks (who got to serve her sentence at home with an ankle-tag), claim they were told to do the deal by their chairmen, Mr Taubman and Sir Anthony Tennant of Christie's (who both deny this). There is also a dispute about how many of Mr Davidge's colleagues at Christie's knew what he was up to.

The irony is that, for a duopoly, Christie's and Sotheby's were for the most part extremely competitive—particularly in securing great collections for auction. When the two chairmen got together (at Sir Anthony's suggestion), a good deal of their first meeting was taken up with complaints that one house was bad-mouthing the other. As one director points out, collusion was unnecessary: "With a duopoly, it's like two people selling tomatoes in a street. If one person raises or lowers prices, the other one's going to follow."

Mr Mason has a particularly good ear for gossip: we learn of the ability of Mrs Taubman, a former Miss Israel, to skin a peach with one hand; about the diminutive Mr Davidge's rags-to-riches life (his father had been a porter at Christie's); about Ms Brooks's fraudster brother; about the shameless way in which aristocratic European ladies are hired to win collections (and fired when they fail); about Mr Taubman's hamfisted attempts to meet the queen; about the extent to which most of the principals loathed each other; and even about how one Christie's employee dismissed the idea that she had had an affair with Mr Davidge by declaring that she would rather make love to an elephant.

There are only two serious drawbacks to Mr Mason's book. The first is that he does a “Bob Woodward”, reproducing “extrapolated” conversations, rather than putting the quotes in indirect speech. The far greater drawback, though, is that “the current unsettled state of British libel law” has persuaded Putnam not to publish the book in Britain. “We are”, they say, “in the business of publishing books, not establishing legal precedents.” Fortunately for British readers, however, a few enterprising booksellers, some of them located not a million miles from Christie's London head office, have imported copies of the American edition.

The Art of the Steal: Inside the Sotheby's-Christie's Auction House Scandal.
By Christopher Mason.
Putnam; 406 pages; $26.95

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About sponsorship

John James Audubon

Birds on a wire

Aug 5th 2004
From The Economist print edition

COUNTLESS journals have told of the beauty and danger of early America's wilderness. Far fewer have included attempts to sketch it. Thank goodness, then, for the perseverance of John James Audubon, the bastard son of a French naval officer, who came alone to America as a teenager in 1803.

Audubon's genius was for drawing birds. But in the days before cameras, first he had to kill them. After marvelling at the grace of, say, a white pelican gliding after a school of fish, he would take aim with his hunting rifle, using fine shot so that the bird was not blown to pieces in the process. He then fixed wires to prop up his quarry in an animated pose. There is irony in the fact that one of America's leading conservation groups is named after him.

Only after years as a luckless businessman in Kentucky and Ohio did Audubon start to peddle the drawings that were his hobby. Rebuffed by Philadelphia's Academy of Natural Sciences (many of whose members were then enamoured of Alexander Wilson, another American bird-sketcher), he set sail on spec for England in 1826. And the gamble paid off: Britons of the time thirsted for images of backwoods America. Audubon became only the second American to be elected a fellow of London's Royal Society. (The first was Benjamin Franklin.)

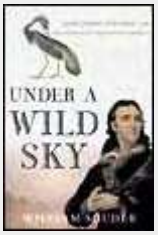
These two new biographies recount his fraught quest for publication and recognition. As both make clear, Audubon's distinction was that he was a truly fine artist: his birds appear lifelike and as part of their natural surroundings, a welcome change from the stiff depictions used by earlier ornithologists such as Wilson. Audubon's whooping crane, for example, bends down to swallow a baby alligator; his hawks feast on fresh-killed ducks. Even George IV, the then king of England, signed up for instalments of “The Birds of America”, Audubon's masterpiece, which consisted of hand-coloured, life-size prints made from plates engraved by British specialists. Two years ago, William Souder reports, the Audubon Museum in Kentucky made 250 fresh, arresting prints of snipes from an original Audubon copper plate.

Richard Rhodes's account is the more detailed of the two, and shows more prints. He sets Audubon in the political context of the day: his uneasy boyhood during the French revolution, for example, memories of which made him later wince when having his unfashionably long hair cut by an Edinburgh barber. Mr Rhodes draws amply on Audubon's writings. At one point he admonishes his long-suffering wife, “For God's sake, my Lucy, do not be troubled with curious ideas such as my liking the birds better than thee.”

Mr Souder awkwardly intersperses chapters about the making of “American Ornithology”, Alexander Wilson's magnum opus, with Audubon's story. But his rendering of Audubon's encounter with billions of now-extinct passenger pigeons—flying wingtip-to-wingtip across the Kentucky sky for three whole days—is magical. Mr Souder also makes some intriguing points about transatlantic tensions among naturalists.

Although Audubon came to owe his career to the English, he had earlier dismissed European birders as “cabinet ornithologists”. Several of them had proclaimed themselves experts in American species without ever having been there. But Audubon told his share of whoppers too: in a serious paper he described to rapt British scientists how American rattlesnakes could hop from tree to tree after their prey—a claim

Under a Wild Sky: John James Audubon and the Making of “The Birds of America”
By William Souder



North Point; 367 pages; $25

Buy it at
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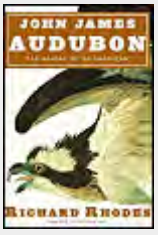
John James Audubon: The Making of an American
By Richard Rhodes



Knopf; 528 pages; $30. To be published in October

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that was later retracted.

Working from Audubon's letters, Mr Rhodes writes that birds were going out of fashion in the 1830s; the new appetite was for insects, fish and botany. But that overlooks rising stars such as John Gould, an English zoologist-turned-ornithologist who is the subject of a recently reprinted classic, “The Bird Man”, by Isabella Tree. Gould gained notice after successfully stuffing George IV's pet giraffe. Later, his prints of hummingbirds and exotic Australian birdlife dazzled Victorian England.

Gould considered Audubon to be both an influence and a rival, yet Audubon's biographers omit to mention their exchanges. In 1837 Gould also helped Charles Darwin—a fledgling naturalist but no ornithologist—to classify his species of finches and mockingbirds after the return of the *Beagle*. It was a fertile time for the world's birders. These books' descriptions of Audubon's favoured pursuits—“eat, walk, shoot, draw”—can only inspire readers today to fetch binoculars, if not a gun, and head for the woods.

Under a Wild Sky: John James Audubon and the Making of “The Birds of America”.
By William Souder.
North Point; 367 pages; $25

John James Audubon: The Making of an American.
By Richard Rhodes.
Knopf; 528 pages; $30. To be published in October

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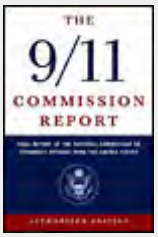
New non-fiction

The al-Qaeda code

Aug 5th 2004
From The Economist print edition

DAN BROWN, Bill Clinton and Bob Woodward have been dramatically brushed aside in recent weeks by the unnamed authors of the 9/11 Commission's report, the findings of the official inquiry into how the September 2001 massacres could have been avoided. The report, published on July 22nd, has shot to the top of Amazon's list of bestselling books online (see article).

The 9/11 Commission Report



Norton; 567 pages; $10 and £6.99

Buy it at
Amazon.com
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For sheer readability, the commission has produced something to be emulated by all future government reports. The prose is crisp, the story as gripping as a thriller, even though by the third chapter it inevitably gets bogged down in a morass of names and details. In the early sections that separately recount each crash, the epistrophe of the repeated final sentence infuses the account with the aura of a dirge ("All on board, along with an unknown number of people... were killed instantly").

The plot tracks the bad guys as they hop between exotic locations around the world and communicate in code. Their ringleader imparts the date of the attacks (9/11) to his headquarters in the shape of a lollipop and two branches. There is even a love story involving Ziad Jarrah, the pilot of the plane that crashed into a field in Pennsylvania. As the tale unfolds, a sense of inevitability builds up. It is as if some awesome force kept misleading sleuths, even as it pushed the hijackers' improbable conspiracy to an inexorable conclusion. Several times during the narrative, the terrorists mess up and the agents get it right. No matter. The plot can have only one ending.

The enemy is vividly portrayed, fretting about exams, looking for dance clubs in Beirut, resolving personality clashes. Al-Qaeda bureaucrats trudge into policy meetings much as do their counterparts in Washington. The group even has a "media committee".

That all makes it an even greater shame that after an initial stab at explaining the discontent that led to the attacks, the authors (steered, it is said, by two academics—the commission's executive director, Philip Zelikow, and a senior adviser, Ernest May) fail to ask why several promising young men, some of them hardly religious, chose to sacrifice their lives in this way. It dismisses them too lightly as "a mixture of young fanatics and highly educated zealots".

The 9/11 Commission Report.
Norton; 567 pages; $10 and £6.99

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About sponsorship

Bestsellers

On entering the lists

Aug 5th 2004
From The Economist print edition

The effect it has on sales

DOES appearing on a bestseller list, like the one from Amazon that we reproduce in these pages every month (see article), make any difference to the sales of books? Authors and publishers certainly think so, judged by the extent of their efforts to be on them and the money they will spend advertising the fact when they get there. In the late 1980s, the Scientology movement was accused of artificially inflating the sales of books by its founder L. Ron Hubbard to make them appear on the *New York Times*'s bestseller list—the doyen of lists, of which there are now around 40 in America alone. In 1990, four years after Hubbard's death, billboards in Los Angeles proclaimed him as the author of "22 national bestsellers and more to come".

Then in the mid-1990s the publishers of a business book called "The Discipline of Market Leaders" were accused of crudely brushing aside market disciplines. It was alleged that copies of the book had been bought directly from retailers (by the management-consultancy firm with which the book's two authors were affiliated) in order to be passed on to corporate clients. Careful selection of the retail outlets for this bulk-buying, it was alleged, had enhanced the book's chances of appearing on the *New York Times*'s list of bestselling non-fiction. Greater awareness of the possibility of such chicanery has made the compilers of these lists more cautious. It is not so easy to rig them today.

Once on a list, the thinking goes, sales flood in. The evidence of popularity reassures potential buyers about a product whose quality they cannot fully judge until they have bought it and consumed it. And retailers concentrate their promotional effort on selling titles that they believe customers most want to buy. Some retailers, indeed, only stock books that have already appeared on bestseller lists.

Until recently, however, there was no strong evidence of the extent (if any) of the causal relationship between appearance on a list and sales. But Alan Sorensen, an assistant professor at the Stanford Graduate School of Business, recently published his research* into the sales records of books that appeared on the *New York Times*'s bestseller lists in 2001 and 2002. By examining figures produced by Nielsen BookScan, a comprehensive nationwide monitor of book sales, Mr Sorensen was able to identify a number of books that did not appear on the bestseller lists, but which sold more copies than some of those that did. Using these as a control group, he was able to establish that for famous authors, such as Danielle Steel or John Grisham, appearing on the list "has no discernible impact on sales".

For less well-known authors, however, it was a different story. Mr Sorensen found that appearing on the list will, on average, boost a book's first-year sales by 13-14%, while for first-time authors the average boost is as big as 57%. What's more, Mr Sorensen thinks that bestseller lists "appear to increase sales for both bestsellers and non-bestsellers in similar genres"—ie, the extra purchases of books appearing on lists are not made at the expense of those that do not appear. They are likely to be genuinely additional sales.

The proliferation of bestseller lists has not, however, led to an overall rise in the number of people reading books. A study† published last month by America's National Endowment for the Arts (NEA) found that in 2002 fewer than half of all American adults (46.7%) had read a work of "literature" (fiction, poetry or a play) in the previous 12 months. The comparable figure in 1992 was 54.0%, and in 1982, 56.9%; there was a sharply steeper decline in the more recent decade. "This report documents a national crisis," said Dana Gioia, the chairman of the NEA.

Perhaps the most dramatic aspect of the crisis lies in the decline of reading among the young. In 1982, the biggest readers of literature by age group were the 18-24-year-olds and the 25-34-year-olds. By 2002, fewer 18-24-year-olds were reading literature than any age group other than the over 75s. This is

partly because they were doing other things, surfing the net, for example, or meeting in coffee bars—two activities that American youth indulged in far more in 2002 than in 1982.

Ironically, another thing taking up more of these potential readers' time is writing. The number of people in America claiming to do “creative writing” increased by 30% between 1982 and 2002. Based on the NEA's findings, more than 14m Americans indulged in some form of such activity in 2002. Perhaps that has left them with too little time to read.

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* www.gsb.stanford.edu/news/research/mktg_bestseller.shtml

† www.nea.gov/pub/ResearchReports_chrono.html

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About sponsorship

Worldwide bestsellers

The big book index

Aug 5th 2004

A big surprise at the top this month

PLENTY of changes in this month's list: seven of the top 12 are newcomers, ranging from Michael D. Evans on the Christian right's view of Iraq to Melissa P.'s lusty tale of what came after virginity for a Sicilian teenager.

AFP

1 The 9/11 Commission Report: Final Report of the National Commission on Terrorist Attacks Upon the United States.
Norton; 567 pages; $10 and £6.99

A publishing sensation: without a million-dollar advance or a big-name author, a government report comes straight in at number one see review on previous page.

Click to buy from Amazon.com or Amazon.co.uk

2 You Are What You Eat: The Plan That Will Change Your Life.
By Gillian McKeith. *Penguin; 223 pages; £12.99*

A doctor writes. But so far for the British market only.

Click to buy from Amazon.co.uk

3 My Life.
By Bill Clinton. *Knopf; 957 pages; $21 and £15*

The ex-president's long-winded biography, down from number one last month.

Click to buy from Amazon.com or Amazon.co.uk

4 Harii Pottaa to Fushichoo no kishidan.
By J.K. Rowling. Translated by Yuko Matsuoka.
Say-zan-sha Publications; ¥4,000

The latest Potter in Japanese is still flying off the shelves.

Click to buy from Amazon.co.jp

5 Mit geschlossenen Augen.
By Melissa P. Goldmann; *186 pages; €7.95*

Italy's erotic blockbuster sweeps across Germany. To be published in English in October as "100 Strokes of the Brush Before Bed".

Click to buy from Amazon.de

6 The Da Vinci Code.
By Dan Brown. *Doubleday; 454 pages; $14.97. Corgi Adult; £6.99*

The tale of murder among the masterpieces and the Holy Grail continues to grip.

Click to buy from Amazon.com or Amazon.co.uk

7 Good to Great: Why Some Companies Make the Leap and Others Don't.
By Jim Collins. *HarperCollins; 320 pages; $19.25. Random House; £14*

The bestselling business book of all time, first published in 2001.

Click to buy from Amazon.com or Amazon.co.uk

8 Skinny Dip.
By Carl Hiaasen. *Knopf; 368 pages; $24.95. To be published in Britain by Bantam Press in October (£12.99)*

A satirical look at pollution in Florida; the highest new entry by a work of fiction.

Click to buy from Amazon.com or Amazon.co.uk

9 The American Prophecies: Ancient Scriptures Reveal Our Nation's Future.
By Michael D. Evans. *Warner Faith; 320 pages; $18.95 and £9.28*

A conservative Christian on America's place in biblical prophecy.

Click to buy from Amazon.com or Amazon.co.uk

10 Eats, Shoots & Leaves: The Zero Tolerance Approach to Punctuation.
By Lynne Truss. *Gotham Books; 240 pages; $10.50. Profile Books; £5.99*

Click to buy from Amazon.com or Amazon.co.uk

11 Imperial Hubris: Why the West is Losing the War on Terror.
By Anonymous. *Brassey's Inc; 309 pages; $27.50 and £18.50*

Uncomfortable view of terrorism by a member of America's intelligence community.

Click to buy from Amazon.com or Amazon.co.uk

12 Shadow Divers: The True Adventure of Two Americans Who Risked Everything to Solve One of the Last Mysteries of World War II.
By Robert Kurson. *Random House; 400 pages; $26.95 and £18.99*

American divers discover German U-boat 60 miles off New Jersey.

Click to buy from Amazon.com or Amazon.co.uk

Source: Global sales from Amazon.com, Amazon.co.uk, Amazon.ca, Amazon.de, Amazon.fr, Amazon.jp from June 30th-July 30th. Prices quoted from Amazon.com and Amazon.co.uk are correct as of August 3rd.

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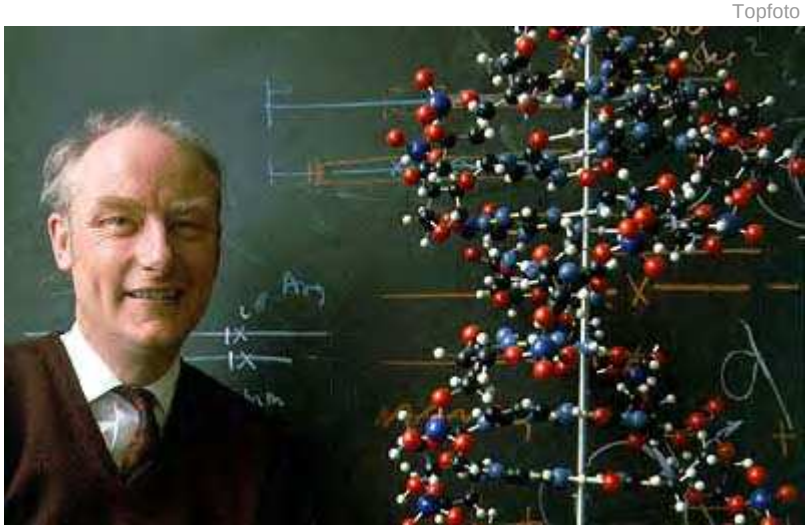
Obituary

Francis Crick

Aug 5th 2004
From The Economist print edition

Topfoto



Francis Harry Compton Crick, molecular biologist, died on July 28th, aged 88

SOME pairs of names are inseparable. Rolls and Royce. Alcock and Brown. Rogers and Hammerstein. So it is with Crick and Watson. Unless you are American, in which case the inseparable pair is Watson and Crick. In the past, scientists have often operated alone. Today, they are as likely to be part of a large team. But a genuine partnership of equals, working without assistance, is a scientific rarity. For a couple of years in the Cambridge of the early 1950s, though, that is exactly what Francis Crick and James Watson were. The result was the most important finding in the history of biology apart from the discovery of evolution by natural selection: the elucidation of the structure of DNA.

They were an odd couple. Jim Watson was an American, a young graduate, and a biologist through and through. Francis Crick was an Englishman in his 30s, still without a doctorate, and a physicist by background. The second world war had interrupted his academic career, and, like many physicists after that war, he had decided to switch to biology.

It was a propitious choice. X-ray crystallography, a hard-physics discipline if ever there was one, was opening up biology. X-rays could be used to probe the structure of molecules, and Linus Pauling, an American scientist, had already used them to work out some of the key features of the structure of proteins. Indeed, it was fear that Pauling would trump them that drove the pair on.

They themselves did no experimental work on DNA's structure. Indeed, for Dr Crick, it was officially a secondary matter. He was supposed to be at Cambridge to work on the structure of proteins. But the two of them clearly felt that they could think their way to the correct answer in their spare time, frequently over a pint or two of beer—a methodology that would be the envy of most researchers.

Ultimately, however, as Sherlock Holmes observed, you need data to test a hypothesis. You cannot make bricks without straw. And in the case of DNA, that straw was X-ray photographs. Unfortunately, the best X-ray photographs of DNA were in the hands of another researcher, Rosalind Franklin, who worked in London. It was not until—in what proved to be one of the more controversial episodes in 20th-century science—one of Franklin's collaborators showed the photographs to Jim Watson that the pair were able to make their critical breakthrough.

Well, fortune favours the prepared mind. Franklin had had the photos for months without being able to

work out what Drs Crick and Watson saw in them immediately—that DNA is a double-stranded helix. By building models with bits of cardboard and scavenged equipment, they showed that its component parts, called nucleotides, link together in a rigid system of pairs which allows the whole thing to be reconstructed from a single one of those strands. It can thus duplicate itself when a cell divides. They published the result in 1953. Shortly afterwards they went their separate ways.

Watson went into science administration, becoming head of the Cold Spring Harbour Laboratory on Long Island, and eventually acting as one of the moving spirits that got the human genome project off the ground. But Dr Crick, as he now was (though for the protein work, rather than for discovering the structure of DNA), stayed in research. He wanted to achieve the double, as it were, of not only solving the structure of DNA, but also cracking the mechanism by which that structure is translated into proteins.

He almost did it. He worked out what has come to be known as the “central dogma” of molecular biology—that information flows from the nucleus (where the DNA is) to the outer part of the cell, where it is used to assemble proteins. And he hypothesised the necessity of what he referred to as adapter molecules, each specific to one of the 20 sorts of amino-acid building block from which proteins are composed. These molecules duly turned up, and are now called transfer RNA.

Breaking the code

The real intellectual prize, though, was the genetic code itself. It was clear that DNA's message—the instructions for making proteins, and thus bodies—depended on the order of the nucleotides. Dr Crick devised a possible coding system so economical and free of the risk of error that, when experiment showed it was incorrect, one commentator observed that it was “the most elegant biological theory ever to be proposed and proved wrong”.

The usual honours rolled in, of course, including a share, with Jim Watson and Rosalind Franklin's “generous” collaborator, Maurice Wilkins, of the 1962 Nobel prize for physiology. And once you are a Nobel laureate, you have a certain licence to do things that others dare not. Dr Crick used his to tackle what is one of the few truly mysterious (as opposed to merely not-yet-understood) phenomena in science—human consciousness.

By now he had moved from the windy fens of Cambridge to the sunny beaches of California. He ended his days at the Salk Institute in La Jolla. He never did crack consciousness, but he did live long enough to see the human genome decoded completely, even if the story written there is not yet fully told.

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Overview

Aug 5th 2004
From The Economist print edition

Oil prices continued to hit new highs. The benchmark American light-crude contract rose above $44 a barrel in New York trading. OPEC, the cartel of oil-exporting countries, said that increasing output to lower prices was not much of an option, since global oil production is now near its short-term limit.

America's economy expanded at an annual rate of 3.0% in the second quarter, down from the 4.5% pace in the first quarter and far below brokers' estimates of 3.7%. Two purchasing managers' indices, however, gave reason for optimism. The ISM's manufacturing index rose to 62.0 in July from 61.1 in June, while its index of service-sector activity rose to 64.8 from 59.9. However, both surveys reported weak job growth.

America's consumers, who have so far supported global economic growth, shrugged in June. Consumer spending fell during the month by 0.7%, its biggest fall since September 2001. Higher petrol prices were partly to blame, as was a plunge in car sales. The report also said that consumer-price inflation remains restrained.

Retail sales in the **euro area** rose slightly in the year to June. The ranks of **Germany's** jobless continued to swell in July by a further 11,000 would-be workers. The unemployment rate rose to 10.6% from 10.5%.

Consumer-price inflation in **Switzerland** fell to 0.9% in the year to July from 1.1% in the year to June.

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Output, demand and jobs

Aug 5th 2004
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2004	2005	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 3.2	Q1	+ 0.9	+ 3.5	+ 3.3	– 1.1	Q1	+ 7.7	Q1	5.6	Jun	6.1
Austria	+ 0.5	Q1	+ 0.8	+ 1.6	+ 2.1	+ 6.6	May	+ 2.6	Apr	4.2	Jul	4.5
Belgium	+ 2.0	Q1	+ 3.0	+ 2.2	+ 2.1	+ 3.1	May	– 2.5	May	12.4	Jun†	11.6
Britain	+ 3.7	Q2	+ 3.8	+ 3.3	+ 2.7	+ 0.5	Jun	+ 7.2	Jun	4.7	May††	5.0
Canada	+ 1.6	Q1	+ 2.4	+ 2.9	+ 3.4	+ 3.6	May	+ 4.9	Mar	7.3	Jun	7.7
Denmark	+ 1.4	Q1	+ 3.8	+ 2.0	+ 2.2	+ 1.7	May	+ 4.3	Jun	6.4	Jun	6.3
France	+ 1.7	Q1	+ 3.0	+ 2.2	+ 2.2	+ 3.4	May	+ 4.1	Jun	9.9	Jun	9.8
Germany	+ 1.5	Q1	+ 1.8	+ 1.5	+ 1.7	+ 4.2	May	– 2.2	Jun	10.6	Jul§	10.6
Italy	+ 0.8	Q1	+ 1.8	+ 1.2	+ 1.8	+ 2.7	May	– 5.3	May	8.5	Jan	8.9
Japan	+ 5.6	Q1	+ 6.1	+ 4.5	+ 2.3	+ 8.9	Jun	– 2.4	May	4.6	Jun	5.3
Netherlands	+ 0.9	Q1	+ 2.8	+ 1.3	+ 1.8	– 0.8	May	– 1.0	May‡	6.4	Jun**	5.3
Spain	+ 2.8	Q1	+ 2.6	+ 2.8	+ 2.8	+ 5.7	Jun	+ 2.1	Jun	11.1	Jun	11.3
Sweden	+ 2.6	Q1	+ 2.6	+ 2.8	+ 2.6	+ 7.5	May	+ 5.4	May	5.8	Jun†	4.8
Switzerland	+ 1.5	Q1	+ 1.6	+ 1.9	+ 2.1	+ 4.5	Q1	– 3.5	May	3.7	Jun†	3.6
United States	+ 4.8	Q2	+ 3.0	+ 4.5	+ 3.5	+ 5.6	Jun	+ 5.6	Jun	5.6	Jun	6.3
Euro area	+ 1.3	Q1	+ 2.3	+ 1.8	+ 2.0	+ 3.9	May	+ 1.2	Jun	9.0	Jun	8.9
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 2.7	Q1	+ 3.0	na	na	+ 5.2	Jun	+ 5.7	Apr	8.9	Jun†	9.6
Greece	+ 4.0	Q1	+ 3.0	na	na	+ 0.3	May	+ 4.0	May	na		na
Iceland	+ 4.9	Q1	na	na	na	na		na		3.3	May†	3.6
Ireland	+ 6.1	Q1	na	na	na	– 0.2	May	+ 5.4	May	4.3	Jun	4.7
Luxembourg	+ 2.1	2003	na	na	na	– 1.2	Dec	+ 2.3	Mar	4.0	May	3.6
New Zealand	+ 4.4	Q1	+ 8.1	na	na	+ 5.5	Q1	+ 8.0	Q1	4.3	Q1	4.9
Norway	+ 2.9	Q1	+ 3.9	na	na	+ 5.5	May	+ 5.3	Jun	4.6	Q2	4.7
Portugal	+ 0.1	Q1	+ 2.4	na	na	– 0.2	Jun	+ 5.2	Jun	6.4	Q1†	6.4

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡New series. ††Mar-May; claimant count rate 2.7% in Jun. §EU harmonised rate 9.8% in Jun. **Apr-Jun.

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Prices and wages

Aug 5th 2004
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2004	2005	latest		year ago	latest		year ago
Australia	+ 2.5	Q2	+ 2.7	+ 2.5	+ 2.5	+ 2.8	Q2	+ 0.2	+ 5.1	Q1	+ 4.4
Austria	+ 2.3	Jun	+ 1.1	+ 1.6	+ 1.5	+ 5.9	Jun	+ 1.7	+ 2.2	Jun	+ 2.1
Belgium	+ 2.4	Jul	+ 1.5	+ 1.8	+ 1.6	+ 4.2	Jun	− 0.8	+ 2.3	Apr	+ 1.7
Britain	+ 1.6	Jun*	+ 1.1	+ 1.5	+ 1.8	+ 2.6	Jun	+ 1.1	+ 4.3	May†	+ 3.2
Canada	+ 2.5	Jun	+ 2.6	+ 2.0	+ 2.1	+ 6.4	Jun	− 2.7	+ 2.6	May	+ 3.0
Denmark	+ 1.1	Jun	+ 2.2	+ 1.3	+ 1.9	+ 2.4	Jun	− 0.2	+ 3.3	Q1	+ 3.9
France	+ 2.4	Jun	+ 2.0	+ 2.1	+ 1.7	+ 2.2	Jun	+ 0.9	+ 2.8	Q1	+ 2.9
Germany	+ 1.8	Jul	+ 0.9	+ 1.6	+ 1.2	+ 3.5	Jun	nil	+ 1.8	May	+ 1.4
Italy	+ 2.3	Jul	+ 2.7	+ 2.3	+ 2.1	+ 3.2	Jun	+ 1.5	+ 3.3	Jun	+ 1.7
Japan	nil	Jun	− 0.4	− 0.1	+ 0.3	+ 1.4	Jun	− 1.1	+ 0.8	Jun	+ 4.0
Netherlands	+ 1.1	Jul	+ 2.1	+ 1.5	+ 1.4	+ 3.7	Jun	+ 1.2	+ 1.5	Jun	+ 2.9
Spain	+ 3.5	Jun	+ 2.8	+ 2.8	+ 2.6	+ 4.0	Jun	+ 0.9	+ 3.2	Q1	+ 4.9
Sweden	+ 0.5	Jun	+ 1.8	+ 0.8	+ 1.6	+ 1.5	Jun	− 1.6	+ 2.0	May	+ 2.6
Switzerland	+ 0.9	Jul	+ 0.2	+ 0.7	+ 1.1	+ 1.5	Jun	− 0.7	+ 1.4	2003	+ 1.8
United States	+ 3.3	Jun	+ 2.1	+ 2.6	+ 2.3	+ 4.0	Jun	+ 2.7	+ 2.0	Jun	+ 2.7
Euro area	+ 2.4	Jul	+ 1.9	+ 2.0	+ 1.7	+ 2.4	Jun	+ 1.4	+ 2.5	Q1	+ 3.0
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	− 0.1	Jun	+ 0.8	na	na	+ 1.1	Jun	− 0.3	+ 4.1	Q1	+ 4.1
Greece	+ 2.8	Jun	+ 3.8	na	na	+ 3.1	May	+ 2.4	na		na
Iceland	+ 3.6	Jul	+ 1.6	na	na	+ 5.0	Jun	+ 3.2	+ 5.1	Jun	+ 5.6
Ireland	+ 2.3	Jun	+ 3.5	na	na	− 0.1	May	−10.0	+ 6.1	Q4	+ 6.4
Luxembourg	+ 2.6	Jun	+ 1.8	na	na	+ 7.7	May	+ 2.7	− 0.4	Dec	+ 0.7
New Zealand	+ 2.4	Q2	+ 1.5	na	na	− 0.6	Q1	− 1.3	+ 2.2	Q1	+ 2.3
Norway	+ 1.3	Jun	+ 1.7	na	na	+12.0	Jun	+ 2.8	+ 4.6	Q1	+ 5.3
Portugal	+ 2.7	Jun	+ 3.3	na	na	+ 2.4	Jun	+ 0.8	+ 1.3	May	− 1.9

*New series. RPI inflation rate in June: 3.0%. †Mar-May.

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Economist forecasts

Aug 5th 2004
From The Economist print edition

The Economist poll of forecasters, August averages (previous month's, if changed)

	Real GDP, % change Low/high range		Real GDP, % change average		Consumer prices % increase		Current account % of GDP	
	2004	2005	2004	2005	2004	2005	2004	2005
Australia	2.9/4.0	2.7/3.6	3.5	3.3 (3.4)	2.5	2.5 (2.6)	−5.4(−5.3)	−3.9 (−4.7)
Austria	1.3/2.0	1.7/2.4	1.6	2.1	1.6	1.5	−0.4	−0.2 (−0.5)
Belgium	1.7/2.6	1.3/2.5	2.2	2.1	1.8 (1.7)	1.6 (1.5)	3.5 (3.4)	3.4 (3.5)
Britain	2.8/3.6	1.9/3.6	3.3 (3.2)	2.7	1.5	1.8 (1.9)	−2.4(−2.6)	−2.0 (−2.6)
Canada	2.5/3.3	2.9/4.2	2.9 (3.0)	3.4	2.0 (1.9)	2.1	2.2 (2.4)	1.6 (1.8)
Denmark	1.2/2.4	1.6/2.6	2.0 (1.9)	2.2	1.3	1.9	2.7 (2.5)	2.6 (2.4)
France	1.5/2.5	1.5/2.7	2.2	2.2	2.1	1.7 (1.6)	0.7 (0.8)	0.8
Germany	1.1/1.8	1.1/2.5	1.5 (1.4)	1.7	1.6	1.2	2.8 (2.6)	2.6
Italy	0.8/1.5	0.9/2.4	1.2	1.8	2.3 (2.2)	2.1	−1.0(−0.9)	−0.8
Japan	4.0/5.0	1.1/3.8	4.5 (4.4)	2.3 (2.2)	−0.1	0.3 (0.2)	3.5 (3.4)	3.6 (3.4)
Netherlands	0.9/1.9	1.2/2.5	1.3	1.8	1.5	1.4	2.8	2.8 (2.9)
Spain	2.5/3.1	2.5/3.0	2.8	2.8	2.8	2.6	−2.9	−2.6 (−3.1)
Sweden	2.4/3.2	1.9/3.4	2.8	2.6 (2.5)	0.8 (0.9)	1.6	6.4 (6.3)	5.8 (6.0)
Switzerland	1.7/2.1	1.3/2.5	1.9	2.1 (2.0)	0.7	1.1	10.5(10.8)	10.2 (10.6)
United States	4.2/5.0	3.0/4.2	4.5 (4.6)	3.5 (3.6)	2.6 (2.5)	2.3 (2.2)	−5.2	−4.4 (−5.0)
Euro area	1.4/2.0	1.5/2.6	1.8	2.0	2.0	1.7	0.5	0.6 (0.5)

Sources: ABN Amro, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, KBC Bank, J.P. Morgan Chase, Morgan Stanley, Decision Economics, BNP Paribas, Royal Bank of Canada, Citigroup, Scotiabank, UBS

Every month, *The Economist* surveys a group of forecasters and calculates the average of their predictions for economic growth, inflation and current-account balances for 15 countries and for the euro area. The table also shows the highest and lowest projections for growth. The previous month's figures, where they are different, are shown in brackets. Our panel sees further improvement in Japan, and now expects GDP to grow by 4.5% this year and by 2.3% next year. The panel is starting to fret about America, trimming its estimate of American GDP growth, and has revised up its estimates of consumer-price inflation through 2005. America's current-account deficit, however, is now tipped to fall to 4.4% of GDP in 2005, down from July's estimate of 5.0%. The panel has raised its 2004 estimate of Britain's growth, while nudging down its inflation forecast for 2005.

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Money and interest rates

Aug 5th 2004
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Aug 4th 2004)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 4.4	+11.8	Jun	5.45	4.80	5.25	5.71	5.50	6.50
Britain	+ 6.4	+ 7.8	Jun	4.94	3.44	5.02	5.07	4.46	5.80
Canada	+15.6	+ 8.1	Jun	2.05	2.87	3.09	4.75	4.96	6.34
Denmark	+ 7.7	+ 9.1	Jun	2.20	2.30	2.48	4.27	4.28	5.50
Japan	+ 3.6	+ 1.8	Jun	0.03	0.01	0.19	1.78	0.91	1.95
Sweden	+ 2.6	+ 0.8	Jun	1.99	2.68	2.77	4.44	4.58	2.86
Switzerland	+ 6.6	+ 4.2	Jun	0.54	0.28	1.13	2.70	2.55	2.50
United States	+ 5.0	+ 5.9	Jun	1.65	1.04	2.65	4.43	4.28	5.90
Euro area†	+ 9.6	+ 5.4	Jun	2.12	2.14	2.57	4.13	4.09	3.96

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 5.17%, Japan No. 262 1.79%. Central bank rates: US fed funds 1.25%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 4.5%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Aug 5th 2004
From The Economist print edition

1995=100

	Jul 27th	Aug 3rd*	% change on one month	% change on one year
Dollar index				
All items	90.3	89.8	– 6.9	+15.7
Food	84.7	83.8	–10.9	+10.4
Industrials				
All	97.9	98.0	– 1.7	+22.6
Nfa†	92.0	90.0	– 2.2	+10.4
Metals	102.9	104.7	– 1.3	+33.3
Sterling index				
All items	78.1	77.7	– 6.0	+ 2.0
Euro index				
All items	98.5	97.9	– 5.2	+ 8.8
Yen index				
All items	106.6	105.7	– 5.7	+ 6.7
Gold				
$ per oz	388.05	391.45	+ 0.1	+12.0
West Texas Intermediate				
$ per barrel	41.84	44.10	+11.2	+36.8

* Provisional. † Non-food agriculturals.

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Stockmarkets

Aug 5th 2004
From The Economist print edition

Market indices

	Aug 4th	2004 high	2004 low	% change on one week	% change on record high	% change on Dec 31st 2003 in local currency	% change on Dec 31st 2003 in $ terms
Australia (All Ordinaries)	3,555.5	3,565.3	3,274.9	+ 1.3	- 0.3	+ 7.5	+ 0.6
Austria (ATX)	2,027.6	2,040.1	1,568.9	- 0.6	- 0.6	+31.2	+25.4
Belgium (Bel 20)	2,486.4	2,517.3	2,244.2	+ 1.9	-32.5	+10.8	+ 5.9
Britain (FTSE 100)	4,408.1	4,575.7	4,287.0	+ 1.2	-36.4	- 1.5	+ 0.4
Canada (Toronto Composite)	8,363.0	8,898.8	8,123.5	+ 0.1	-26.6	+ 1.7	+ 0.1
Denmark (KBX)	237.8	241.3	219.0	+ 1.6	-21.2	+11.3	+ 6.6
France (SBF 250)	2,463.9	2,594.4	2,411.5	+ 0.6	-43.9	+ 2.2	- 2.3
(CAC 40)	3,607.6	3,811.4	3,465.3	+ 0.9	-47.9	+ 1.4	- 3.1
Germany (DAX)	3,823.7	4,151.8	3,726.1	+ 0.4	-52.6	- 3.6	- 7.8
Italy (BCI)	1,288.7	1,340.3	1,239.5	+ 0.4	-40.9	+ 2.6	- 2.0
Japan (Nikkei 225)	11,010.0	12,163.9	10,365.4	- 1.7	-71.7	+ 3.1	- 0.7
(Topix)	1,114.8	1,217.9	1,022.6	- 1.3	-61.4	+ 6.8	+ 2.9
Netherlands (AEX)	323.4	364.8	320.7	- 0.3	-53.9	- 4.2	- 8.5
Spain (Madrid SE)	826.8	881.7	808.0	nil	-27.9	+ 2.3	- 2.2
Sweden (Affarsvarlden Gen)	199.5	218.1	188.5	nil	-50.2	+ 5.9	- 0.1
Switzerland (Swiss Market)	5,518.9	5,934.4	5,429.7	+ 0.1	-34.4	+ 0.6	- 2.4
United States (DJIA)	10,126.5	10,737.7	9,906.9	+ 0.1	-13.6	- 3.1	- 3.1
(S&P 500)	1,098.6	1,157.8	1,084.1	+ 0.3	-28.1	- 1.2	- 1.2
(NASDAQ Comp)	1,855.1	2,153.8	1,839.0	- 0.2	-63.3	- 7.4	- 7.4
Europe (FTSE Eurotop 300)*	976.1	1,026.2	957.0	+ 0.8	-42.7	+ 1.9	- 2.6
Euro area (FTSE Ebloc 100)*	816.9	888.3	802.8	+ 0.6	-47.3	- 1.8	- 6.1
World (MSCI)†	1,022.5	1,085.8	997.0	+ 0.5	-29.4	- 1.3	- 1.3
World bond market (Citigroup)‡	593.9	619.5	575.1	+ 0.9	- 4.1	- 1.6	- 1.6

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in $ terms.
‡Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Aug 5th 2004
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		The Economist poll % of GDP, forecast 2004	2005	Exchange rate trade-weighted† 1990=100 Aug 4th	year ago	Currency units per $ Aug 4th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2004‡
Australia	− 16.9	Jun	− 33.0	Q1	− 5.4	− 3.9	84.0	82.0	1.42	1.54	2.59	1.71	1.28	0.5
Austria	− 0.5	Apr	− 2.0	May	− 0.4	− 0.2	102.8§	103.0	0.83	0.88	1.51	–	0.75	-1.3
Belgium	+ 21.9	May	+ 12.2	Mar	+ 3.5	+ 3.4	102.9§	103.3	0.83	0.88	1.51	–	0.75	-0.2
Britain	− 91.3	May	− 39.2	Q1	− 2.4	− 2.0	106.3	98.7	0.55	0.62	–	0.66	0.49	-2.9
Canada	+ 46.7	May	+ 20.9	Q1	+ 2.2	+ 1.6	88.0	83.4	1.31	1.41	2.40	1.58	1.18	1.2
Denmark	+ 10.3	May	+ 6.8	May	+ 2.7	+ 2.6	106.2	106.6	6.17	6.54	11.3	7.43	5.54	0.9
France	+ 4.4	May	+ 2.5	May	+ 0.7	+ 0.8	106.3§	106.8	0.83	0.88	1.51	–	0.75	-3.8
Germany	+179.6	May	+ 81.3	May	+ 2.8	+ 2.6	104.0§	104.4	0.83	0.88	1.51	–	0.75	-3.7
Italy	+ 3.4	May	− 15.2	May	− 1.0	− 0.8	75.9§	76.1	0.83	0.88	1.51	–	0.75	-3.1
Japan	+124.5	May	+160.7	May	+ 3.5	+ 3.6	132.8	127.0	111	120	203	134	–	-7.1
Netherlands	+ 33.0	May	+ 18.7	Q1	+ 2.8	+ 2.8	102.4§	102.8	0.83	0.88	1.51	–	0.75	-3.1
Spain	− 60.1	May	− 28.3	Apr	− 2.9	− 2.6	77.0§	77.3	0.83	0.88	1.51	–	0.75	0.3
Sweden	+ 22.6	Jun	+ 21.2	Q1	+ 6.4	+ 5.8	80.4	80.3	7.63	8.09	13.9	9.19	6.85	0.2
Switzerland	+ 7.8	Jun	+ 37.5	Q4	+10.5	+10.2	112.5	112.9	1.27	1.35	2.33	1.54	1.15	-1.6
United States	−572.9	May	−537.3	Q1	− 5.2	− 4.4	97.4	104.7	–	–	1.82	1.21	0.90	-4.7
Euro area	+107.6	May	+ 58.4	May	+ 0.5	+ 0.6	89.7	90.4	0.83	0.88	1.51	–	0.75	-2.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 14.0	May	+ 10.2	May	na	na	81.9§	82.2	0.83	0.88	1.51	–	0.75	1.6
Greece	− 27.5	May	− 10.4	May	na	na	59.5§	59.7	0.83	0.88	1.51	–	0.75	-3.2
Iceland	− 0.3	May	− 0.7	Q1	na	na	95.2**	98.2	71.7	77.9	131	86.4	64.4	0.2
Ireland	+ 42.7	Apr	− 2.1	Q1	na	na	93.9§	95.2	0.83	0.88	1.51	–	0.75	-0.5
Luxembourg	− 3.9	May	+ 3.2	Q1	na	na	102.9§	103.3	0.83	0.88	1.51	–	0.75	-1.8
New Zealand	− 2.2	Jun	− 3.4	Q1	na	na	104.0	99.6	1.59	1.72	2.90	1.92	1.43	2.9
Norway	+ 29.0	Jun	+ 29.4	May	na	na	95.5	98.5	7.01	7.19	12.8	8.45	6.30	10.4
Portugal	− 14.9	Apr	− 8.8	May	na	na	93.3**	92.9	0.83	0.88	1.51	–	0.75	-3.8

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, June average. ‡OECD forecast. **IMF, April average.

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About sponsorship

Money supply

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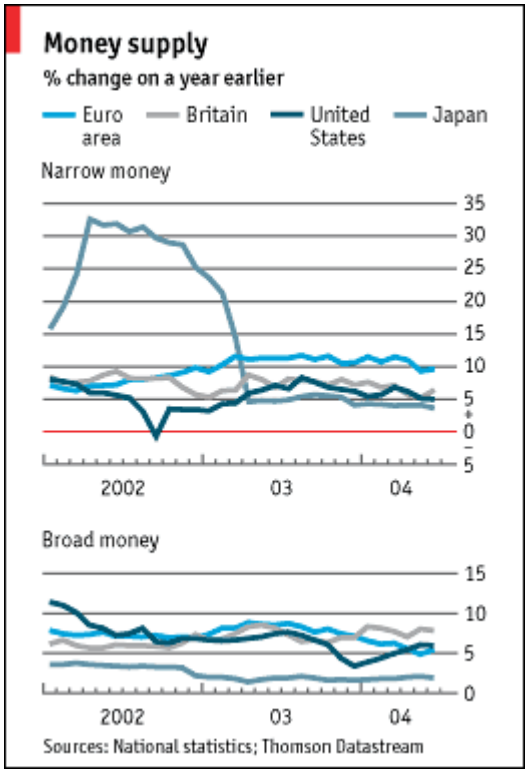
From The Economist print edition



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Overview

Aug 5th 2004
From The Economist print edition

In the year to July, inflation was on the rise throughout Asia. Consumer prices climbed in **South Korea** by 4.4%, a 16-month high, and in **Indonesia** by 7.2%, thanks partly to a weaker rupiah. In **Thailand**, inflation rose to 3.1% during the period as factories boomed: industrial production grew by 9.4% in the year to June.

High commodity prices pushed **Brazil's** trade surplus close to a record high in July.

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Exchange rates against the dollar

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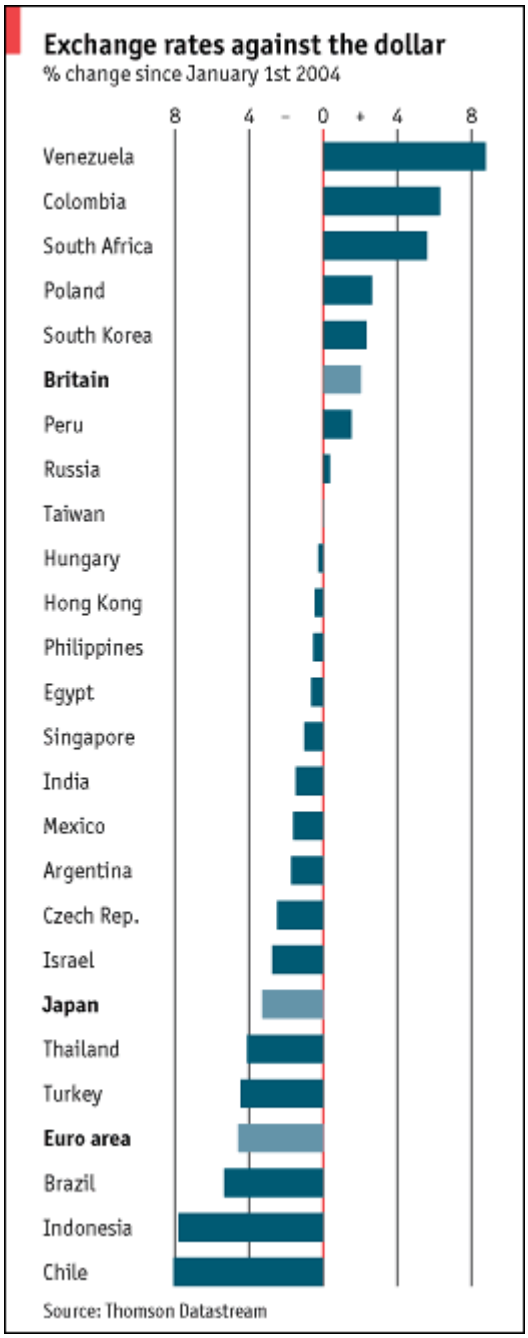
Since the beginning of 2004, more than half of the emerging-market currencies in our chart have fallen against the dollar. The currencies of Brazil, Indonesia and Chile have declined by more than 5%, a bigger depreciation than that of the euro, but most have fallen more modestly. Some developing-economy currencies have even been on the upswing: South Africa's rand and Colombia's peso have both risen by around 6% while Venezuela's bolivar is up by 9%.



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Economy

Aug 5th 2004
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.6	Q2	+16.2	Jun	+ 5.0	Jun	+15.3	Jun	+45.9	2003	470.6	Jun
Hong Kong	+ 6.8	Q1	+ 1.8	Q1	– 0.1	Jun	–13.0	Jun	+14.3	Q1	120.8	Jun
India	+ 8.2	Q1	+ 6.2	May	+ 3.0	Jun	–16.9	Jun	+ 8.7	Q1	114.1	Jun
Indonesia	+ 4.5	Q1	+24.0	May	+ 7.2	Jul	+27.9	Jun	+ 7.4	Q4	33.7	Jun
Malaysia	+ 7.6	Q1	+12.8	May	+ 1.3	Jun	+19.5	Jun	+13.0	Q1	53.9	Jun
Philippines	+ 6.4	Q1	– 1.6	May	+ 6.0	Jul	– 1.3	May	+ 3.9	Mar	13.0	Jun
Singapore	+11.7	Q2	+19.4	Jun	+ 2.3	Jun	+16.1	Jun	+27.6	Q1	101.6	Jun
South Korea	+ 5.3	Q1	+12.3	Jun	+ 4.4	Jul	+30.0	Jul	+24.6	Jun	167.0	Jun
Taiwan	+ 6.3	Q1	+15.7	Jun	+ 1.8	Jun	+13.1	Jun	+27.4	Q1	230.1	Jun
Thailand	+ 6.5	Q1	+ 9.4	Jun	+ 3.1	Jul	+ 1.7	Jun	+ 7.0	Jun	42.3	Jun
Argentina	+10.7	Q1	+ 9.5	Jun	+ 4.9	Jun	+13.4	Jun	+ 6.1	Q1	17.4	Jun
Brazil	+ 2.7	Q1	+ 7.8	May	+ 6.6	Jun	+30.9	Jul	+ 7.9	Jun	49.8	Jun
Chile	+ 4.8	Q1	+ 5.1	Jun	+ 1.4	Jul	+ 6.2	Jun	– 0.1	Q1	15.9	Jun
Colombia	+ 4.1	Q1	+ 3.5	May	+ 6.1	Jun	+ 0.2	Apr	– 1.6	Q1	11.6	Jun
Mexico	+ 3.7	Q1	+ 2.1	May	+ 4.4	Jun	– 5.5	Jun	– 9.1	Q1	60.4	Jun
Peru	+ 4.2	May	+ 6.5	May	+ 4.6	Jul	+ 1.5	May	– 0.6	Q1	10.1	Jun
Venezuela	+29.8	Q1	+24.8	May	+21.8	Jul	+17.8	Q1	+12.3	Q1	18.9	May
Egypt	+ 3.1	2003†	+ 2.6	2003†	+ 5.5	Dec	– 6.7	Q1	+ 3.9	Q1	13.2	Mar
Israel	+ 2.6	Q1	+ 4.2	May	nil	Jun	– 5.6	Jun	+ 0.3	Q1	26.2	Jul
South Africa	+ 1.9	Q1	+ 3.0	May	+ 1.2	Jun	+ 0.3	Jun	– 2.0	Q1	9.8	Jun
Turkey	+10.1	Q1	+16.5	May	+ 9.6	Jul	–29.8	Jun	–11.3	May	33.9	Jun
Czech Republic	+ 3.1	Q1	+12.7	May	+ 2.9	Jun	– 2.5	May	– 6.0	Q1	26.5	Jun
Hungary	+ 4.2	Q1	+ 7.1	May	+ 7.5	Jun	– 4.2	Apr	– 7.1	Apr	12.6	Jun
Poland	+ 6.9	Q1	+15.7	Jun	+ 4.4	Jun	– 5.5	May	– 2.8	May	35.0	Jun
Russia	+ 7.4	Q1	+ 9.2	Jun	+10.4	Jul	+67.1	May	+38.4	Q2	81.5	Jun
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+ 6.8	Q1	+ 5.4	Jun	+ 4.5	Jun	– 2.3	May	– 1.1	Q1	1.4	May
Latvia	+ 8.8	Q1	+ 3.4	May	+ 6.1	Jun	– 2.4	May	– 1.4	May	1.5	May
Lithuania	+ 6.9	Q2	na		+ 1.1	Jun	– 2.9	Apr	– 1.5	Q1	3.4	May
Slovakia	+ 5.5	Q1	+ 8.0	May	+ 8.1	Jun	– 0.5	May	nil	Mar	13.1	May
Slovenia	+ 3.7	Q1	+12.0	May	+ 3.8	Jul	– 0.9	May‡	– 0.2	May	8.2	Apr
Pakistan	+ 5.1	2003†	+ 3.3	Mar	+ 8.5	Jun	– 3.2	Jun	+ 2.4	Q1	11.1	May
Saudi Arabia	+ 7.2	2003	na		+ 0.4	May	+61.2	2003	+29.7	2003	21.9	Jun

*Excluding gold, except Singapore; IMF definition. †Year ending June.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank.

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Financial markets

Aug 5th 2004
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Aug 4th		Dec 31st 2003	
	Aug 4th	year ago	Aug 4th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	15.1	3.29	1,473.5	+1.1	– 6.1	– 6.1
Hong Kong	7.80	7.80	14.2	0.89	12,280.3	–0.3	– 2.4	– 2.8
India	46.3	46.0	84.5	4.49	5,169.1	+1.9	– 11.5	– 12.8
Indonesia	9,225	8,597	16,831	7.50	758.3	–0.2	+ 9.6	+ 0.1
Malaysia	3.80	3.80	6.93	2.87	824.9	– 1.6	+ 3.9	+ 3.9
Philippines	55.9	54.7	102.0	7.56	1,572.9	–0.7	+ 9.1	+ 8.3
Singapore	1.72	1.76	3.15	1.00	1,903.9	+1.5	+ 7.9	+ 6.3
South Korea	1,168	1,186	2,130	3.90	729.4	– 2.0	– 10.0	– 8.2
Taiwan	34.0	34.4	62.1	1.10	5,316.9	– 1.2	– 9.7	– 9.9
Thailand	41.5	42.0	75.7	1.50	619.2	– 2.4	– 19.8	– 23.4
Argentina	3.01	2.93	5.49	4.88	983.8	+3.7	– 8.2	– 10.6
Brazil	3.06	3.04	5.58	15.82	22,177.9	+0.1	– 0.3	– 5.9
Chile	644	711	1,174	1.80	7,851.7	+0.3	+ 7.0	– 1.5
Colombia	2,611	2,893	4,765	7.79	2,885.2	– 1.3	+ 23.6	+ 31.6
Mexico	11.5	10.7	20.9	7.17	10,075.8	–0.1	+ 14.6	+ 12.3
Peru	3.42	3.48	6.24	2.54	2,820.1	+1.9	+ 15.8	+ 17.2
Venezuela	2,722§	1,598	4,966	13.42	27,338.0	+7.1	+ 23.1	+ 29.0
Egypt	6.22	6.12	11.36	11.25	15,983.6	+1.8	+ 37.3	+ 36.0
Israel	4.53	4.43	8.26	1.00	554.0	– 3.0	+ 3.7	+ 0.6
South Africa	6.26	7.40	11.4	8.20	10,447.7	+2.1	+ 0.6	+ 7.2
Turkey	1,480,500	1,408,000	2,701,172	25.19	19,048.5	+0.2	+ 2.3	– 2.9
Czech Republic	26.4	28.2	48.1	2.50	795.0	+1.1	+ 20.6	+ 17.4
Hungary	207	230	378	11.34	11,653.1	+1.1	+ 24.2	+ 24.2
Poland	3.66	3.84	6.67	6.43	23,835.3	+1.1	+ 14.5	+ 17.1
Russia	29.2	30.3	53.2	13.00	547.1‡	+5.6	– 3.8	– 3.6
EMF (MSCI)*	1.00	1.00	1.82	na	420.6	+0.2	– 5.0	– 5.0
EMBI+†	1.00	1.00	1.82	na	296.3	+1.6	+ 0.5	+ 0.5

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Floating exchange rate.
Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank.

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